GREAT SWEET GRASS OILS LIMITED

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETINGS OF SHAREHOLDERS

TAKE NOTICE that an Annual Meeting of the Shareholders of Great Sweet Grass Oils Limited will be held in the Library Room of the Biltmore Hotel at New York City, New York, on Monday, the 4th day of April, 1960 at the hour of 11:00 o'clock in the forenoon, Eastern Standard Time, for the following purposes:

(a) Receiving and considering the Annual and Special Report to the Shareholders including financial statements for the fiscal periods ending December 31st, 1958 and the ten months' period ending October 31st, 1959 made up of statements of income, profit and loss, statements of surplus and balance sheets as of the end of the said periods, together with the Reports of the Auditors thereon;

(b) Electing directors;

(c) Appointing auditors and authorizing the directors to fix their remuneration;

(d) Transacting such further and other business as may properly come before the said Annual Meeting or any adjournment thereof.

AND FURTHER TAKE NOTICE that a Special General Meeting of the Shareholders of Great Sweet Grass Oils Limited will be held in the Library Room of the Biltmore Hotel at New York City, New York, on Monday, the 4th day of April, 1960 at the hour of 11.30 o'clock in the forenoon, Eastern Standard Time or immediately upon adjournment of the aforesaid Annual Meeting whichever shall be the earlier for the following purposes:

(a) Considering, and if thought fit, confirming By-law No. 74 as passed by the directors, being a general borrowing by-law;

(b) Considering, and if thought fit, confirming Special Resolution No. 4 passed by the directors of the Company, increasing the number of directors of the Company from Five (5) to Seven (7);

(c) Considering, and if thought fit, confirming, with or without variation, Special Resolution No. 5 passed by the directors of the Company being a Special Resolution (1) rescinding Special Resolution No. 3 as previously passed by the directors, and (2) redividing, changing the par value and reclassifying certain shares in the capital of the Company, increasing the authorized capital of the Company, changing the name of the Company and authorizing an application for Supplementary Letters Patent; and

(d) Transacting such further and other business as may properly come before the said Special General Meeting or any adjournment thereof.

Pursuant to a resolution passed by the Board of Directors, the transfer books of the Company will be closed for Forty Seven (47) hours preceding the time fixed for the commencement of the said Annual Meeting of Shareholders and instruments appointing proxies for either the said Annual Meeting or the said Special General Meeting must be deposited with the Company at least half an hour prior to the time fixed for the commencement of the said Annual Meeting.

A copy of the Annual and Special Report to Shareholders accompanies this notice and the text of the said By-law No. 74 and Special Resolutions No. 4 and 5 together with an instrument of proxy is attached hereto.

As the fullest representation of the shareholders at the meeting is desirable, shareholders who are unable to be personally present at the meeting are requested to sign and return in the envelope provided for the purpose, their instrument of proxy for use at the meetings. The proxy form provided will serve for both meetings.

DATED at Toronto the 9th day of March, 1960.

BY ORDER OF THE BOARD,

JOHN B. TINKER,

SECRETARY.

BY-LAW NO. 74

BE IT ENACTED as a by-law of GREAT SWEET GRASS OILS LIMITED (hereinafter referred to as the "Company") as follows:
The directors of the Company may from time to time:

(a) borrow money on the credit of the Company;

(b) issue, sell or pledge securities (including bonds, debentures, debenture stock or other like liabilities) of the Company;

(c) charge, mortgage, hypothecate or pledge all or any of the real or personal property of the Company, including book debts and unpaid calls, rights, powers, franchises and undertaking to secure any such securities or any money borrowed or other debt, or any other obligation or liability of the Company;

(d) give indemnities to any director or other person who has undertaken or is about to undertake any liability on behalf of the Company or any company controlled by it, and secure any such director or other person against loss by giving him by way of security a mortgage or charge upon the whole or any part of the real and personal property, undertaking and rights of the Company.

SPECIAL RESOLUTION NO. 4

BE IT RESOLVED: As Special Resolution No. 4 of GREAT SWEET GRASS OILS LIMITED, that:
The number of directors of the Company be, and the same is hereby increased from Five (5) to Seven (7).

SPECIAL RESOLUTION NO. 5

BE IT RESOLVED that Special Resolution No. 3 of GREAT SWEET GRASS OILS LIMITED previously passed by the directors and confirmed by the shareholders be and the same is hereby rescinded and that the following be and is hereby passed as Special Resolution No. 5 of GREAT SWEET GRASS OILS LIMITED:

1. The Company be and is hereby authorized to make application to the Lieutenant-Governor of the Province of Ontario for supplementary letters patent

(a) rediviging and reclassifying the authorized capital of the Company of One Million Dollars ($1,000,000) divided into Five Million (5,000,000) shares of the par value of Twenty Cents (20¢) each into One Million (1,000,000) common shares of the par value of One Dollar ($1.00) each.

(b) increasing the authorized capital of the Company to Five Million Four Hundred Thousand Dollars ($5,400,000) divided into Two Million (2,000,000) six per cent (6%) cumulative convertible preference shares of the par value of Twenty Cents (20¢) each and Five Million (5,000,000) common shares of the par value of One Dollar ($1.00) each by the creation of:

(i) Four Million (4,000,000) additional common shares of the par value of One Dollar ($1.00) each ranking pari passu with the said One Million (1,000,000) common shares of the par value of One Dollar ($1.00) each; and

(ii) Two Million (2,000,000) six per cent (6%) cumulative convertible preference shares of the par value of Twenty Cents (20¢) each; and

(c) changing the name of the Company from GREAT SWEET GRASS OILS LIMITED to CAN-OKLA PETROLEUMS LIMITED or such other name as the Provincial Secretary may grant.

2. The said six per cent (6%) cumulative convertible preference shares (hereinafter called the "preference shares") shall as a class carry and have attached thereto the following:

(a) The holders of preference shares shall have the right to receive as and when declared by the board of directors of the Company out of the moneys of the Company properly applicable to the payment of dividends, fixed cumulative preferential dividends at the rate of six per cent (6%) per annum, payable quarterly on the last days of March, June, September and December in each year on the amounts from time to time paid up thereon; cheques on the Company's bankers payable at par at the principal office of the Company's bankers in the City of New York in the State of New York, one of the United States of America in Canadian funds or at the option of the Company in the equivalent funds of the United States of America shall be issued in respect of such dividends and payment thereof shall satisfy such dividends; such dividends shall accrue from the respective dates of issue of the preference shares; if on any dividend payment date, the dividend payable on such date is not paid in full on all of the preference shares then issued and outstanding, such dividend, or the unpaid part thereof, shall be paid at a subsequent date or dates as and when declared by the board of directors; the holders of preference shares shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided for; no dividends shall at any time be declared and paid on or declared and set apart for the common shares or any of them or any other shares of the Company junior to the preference shares, nor shall the Company call for redemption less than all the outstanding preference shares, unless all accrued dividends on the preference shares then issued and outstanding shall have been declared and paid or provided for at the date of such declaration or payment or setting apart or call for redemption;

(b) The holders of preference shares shall be entitled to receive notice of and to attend any annual or general meeting of the Company, and shall be entitled to one (1) vote for each preference share held;

(c) The holders of the preference shares shall be entitled on the liquidation, dissolution or winding up of the Company or other distribution of its assets among its shareholders (other than by way of dividends paid while the Company is a going concern out of moneys of the Company properly applicable to the payment of dividends) to receive, before any distribution shall be made to the holders of any other shares of the Company, the amount paid up on their shares together with an amount equal to all accrued and unpaid dividends thereon (for which purpose the cumulative dividends shall be treated as accruing to the date of distribution), whether or not earned or declared; the holders of the preference shares shall not be entitled to any futher participation in any distribution of the assets of the Company;

(d) After December 31, 1974, the Company shall have the right to redeem at any time the whole or from time to time any lesser number of the outstanding preference shares on payment for each share to be redeemed of the amount paid up thereon together with an amount equal to all accrued and unpaid dividends thereon (for which purpose the cumulative dividends shall be treated as accruing to the date of redemption) whether or not earned or declared, the whole amount constituting the redemption price;

(e) Whenever any of the preference shares are to be redeemed, notice of redemption shall be given by the Company by a letter or circular mailed by prepaid ordinary post in an envelope addressed to each person who, at the date of such mailing, is the registered holder of preference shares to be redeemed, at his last address appearing upon

the register, not less than thirty (30) clear days prior to the redemption date; provided that accidental failure to give such notice to one (1) or more of such holders shall not affect the validity of the redemption; every such notice shall specify the redemption date, the redemption price and, unless all the preference shares held by the person to whom it is addressed are to be redeemed, the number so to be redeemed and shall state that the redemption price will be paid to the respective registered holders of the shares so called for redemption on presentation and surrender of the certificates representing such shares at the place or at one of the places of payment named in the notice and that dividends shall cease to accrue upon the said shares from and after the redemption date; on and after the redemption date the Company shall pay or cause to be paid to or to the order of the holders of the preference shares called for redemption the redemption price on presentation and surrender of the respective certificates representing such shares at the place or at one of the places named in the notice; provided that if notice of any such redemption be given as aforesaid and an amount equal to the redemption price of all the preference shares called for redemption be deposited on or before the redemption date in a special account with any chartered bank or trust company in Canada named in the notice of redemption, the preference shares called for redemption shall be redeemed on the redemption date specified in the notice and the rights of each holder thereof shall be limited to receiving, without interest, his proportionate part of the total redemption price so deposited upon presentation and surrender of the certificate or certificates held by him; if less than all the preference shares represented by any certificate be redeemed, a new certificate for the balance shall be issued;

(f) The Company may purchase for cancellation at any time the whole or from time to time some of the outstanding preference shares in the market or upon some recognized stock exchange, if listed and dealt in by the members thereof, or pursuant to tenders received by the Company upon request for tenders addressed to all holders of record of preference shares at the lowest price at which in the opinion of the directors such shares are obtainable, but not exceeding an amount per share equal to the redemption price at the date of purchase of the preference shares being purchased, plus reasonable costs of purchase;

(g) Upon and subject to the terms set forth in clause (h) hereof, preference shares shall be convertible at the option of the registered holder into common shares in the capital of the Company at the rate of one (1) fully paid and non-assessable common share of the Company in respect of each five (5) preference shares surrendered for conversion as hereinafter provided, provided that in the event of liquidation, dissolution or winding up of the Company such right of conversion shall cease and expire at the close of business on the last business day preceding the date of such liquidation, dissolution or winding up and that if preference shares have been called for redemption such right of conversion in respect of the shares so called for redemption shall cease and expire at the close of business on the last business day preceding the redemption date; there shall be no payment or adjustment on account of any accrued unpaid dividends on the preference shares converted; upon any conversion as herein provided, a holder of preference shares desiring to convert his preference shares into common shares in accordance with the foregoing shall surrender the certificate or certificates representing his preference shares so to be converted to the Company at its head office or to the transfer agent, if any, for the time being of the preference shares together with a written request for such conversion in such form and with such certification of signature as the directors of the Company may from time to time require; the conversion shall be deemed to take effect as of the date upon which the said certificate or certificates shall be surrendered by the Company at its head office or its transfer agent as the case may be accompanied by the said written request unless such date be a Saturday, Sunday or a public holiday in which event it shall take effect on the next business day; in the event that part only of the preference shares represented by the certificate shall be converted a certificate for the remainder of the preference shares represented by the said cetificate shall be delivered to the holder without charge;

(h) If at any time or from time to time the Company shall, by redivision, consolidation, reclassification or change of shares, or otherwise, change as a whole the outstanding common shares of the Company into a different number, par value or class of shares, the number of common shares into which preference shares shall be convertible shall be increased or decreased proportionately; if the Company shall at any time consolidate with or merge with another corporation, the holders of preference shares will thereafter receive upon the conversion of the preference shares the security or property which the holder of the number of common shares then deliverable upon the conversion of such preference shares would have been entitled upon such consolidation or merger and the Company shall take such steps in connection with such consolidation or merger as may be necessary to insure that the provisions hereof shall thereafter be applicable as nearly as reasonably may be in relation to any security or property thereafter deliverable upon the conversion of preference shares; a sale of all or substantially all of the assets of the Company for a consideration (apart from the assumption of obligations) consisting primarily of securities shall be deemed a consolidation or merger for the foregoing purposes;

(i) So long as any of the preference shares are outstanding the Company shall not pay dividends upon the common shares in the capital of the Company when consolidated earned surplus of the Company and its subsidiary companies is not sufficient to provide for such dividends; for the purposes hereof the consolidated earned surplus of the Company and its subsidiary companies shall be calculated by deducting from the consolidated net earnings of the Company and its subsidiary companies as herein defined after March 15th, 1960 all dividends declared or paid on outstanding shares of the Company, all premiums paid on the redemption of preference shares and all other items which in the opinion of the auditors of the Company are properly chargeable to earned surplus and declared, paid or arising after March 15th, 1960; subject to the foregoing the consolidated earned surplus of the Company and its subsidiary companies for the purpose hereof shall be determined by the auditor of the Company as at the end of each fiscal year of the Company and a certified copy of a resolution of the directors of the Company as to the consolidated earned surplus of the Company and its subsidiary companies as of a date not more than sixty (60) days prior to the declaration or payment of the dividend or redemption or puchase shall be deemed to be the amount of such consolidated earned surplus as of the date of such declaration or payment or redemption or purchase and shall be conclusive and binding on the holders of the preference shares and the holders of shares of every other class; provided that the directors shall be entitled to rely on the opinion of the auditors of the Company as to the consolidated earned surplus of the Company and its subsidiary companies as at the end of the last completed fiscal year of the Company prior to the making of such estimate. "Consolidated net earnings" of the Company and its subsidiary companies for any specified period means the income for such period from all sources of the Company and its subsidiary companies computed on a consolidated basis in accordance with sound accounting practice after charging or making provisions acceptable to the Company's auditors for (i) interest on funded obligations, (ii) amortization of discount and expense in respect of funded obligations, (iii) taxes on income or profits, computed on the basis of the amounts actually charged in the books of account against earnings for depreciation on depreciable properties, plant and equipment, whether or not the same amounts are charged in the determination of income tax or profits taxes payable, (iv) depreciation on depreciable properties, plant and equipment computed on the basis of the amounts actually charged therefor in the books of account, (v) all other expenses of operation and administration, and (vi) minority interests in the earnings of subsidiary companies;

(j) Preference shares shall not be issued unless the holders of the preference shares outstanding immediately prior to such issue give their authorization

(1) in writing signed by the holders of at least two-thirds (⅔) of the said preference shares, or

(2) by two-thirds (⅔) of the votes cast at a meeting of the said preference shareholders duly called for that purpose; and

(k) The authority for an application for the issue of supplementary letters patent to delete or vary any preference, right, condition, restriction, limitation or prohibition attaching to the preference shares or to create preference shares ranking in priority to or on a parity with the preference shares authorized herein shall in addition to the authorization by a special resolution, be given by at least two-thirds (⅔) of the votes cast at a meeting of the holders of the preference shares duly called for that purpose.

3. The directors and officers of the Company be and they are hereby authorized and directed to do, sign and execute all things, deeds and documents necessary and desirable for the due carrying out of the foregoing.

The Globe & Mail,
King & York Streets,
Toronto, Ontario

Attn: Financial Editor

GREAT SWEET GRASS OILS LIMITED

Instrument of Proxy

The undersigned shareholder of Great Sweet Grass Oils Limited hereby nominates, constitutes and appoints JAMES H. R. CROMWELL, President, or failing him, ROBERT B. BERGER, Vice-President, or failing him, MAJ.-GEN. CHARLES A. WILLOUGHBY (USA Ret.), Treasurer, as proxy of the undersigned to attend the Annual Meeting and Special General Meeting of the shareholders of the said Company, or either of them, to be held on the 4th day of April, 1960, and any adjournment thereof, unless and until the undersigned is present and votes thereat, and to vote and otherwise act thereat for and on behalf and in the name of the undersigned and otherwise in respect of all matters that may come before the meetings, in the same manner, to the same extent and with the same power as the undersigned could do if personally present thereat, the undersigned hereby ratifying and confirming and agreeing to ratify and confirm all that such proxy may lawfully do by virtue hereof; and hereby revokes any former instrument appointing a proxy covering the shares of the said Company now held by him.

DATED this day of (month) 1960.

.....

Signature of Shareholder

NOTICE: The instrument must be signed by the shareholder or his attorney authorized in writing, or, if the shareholder is a corporation the instrument appointing a proxy must be under the corporate seal or under the hand of an officer or attorney so authorized.

Immediate Release

LAND-OIL MERGER

MERGER-ACQUISITION APPROVED BY SHAREHOLDERS OF GREAT SWEET GRASS OILS LIMITED FOR AMERICAN SUBSIDIARY

Toronto, July 6, 1961

The shareholders of Great Sweet Grass Oils Limited voted over 97% in favour of a merger-acquisition plan for the company's Oklahoma subsidiary, Great Sweet Grass Oils Company at the Annual and Special General Meeting of Shareholders held at the King Edward Sheraton Hotel in Toronto yesterday Wednesday.

The merger-acquisition plan calls for the acquisition of a land development enterprise known as Rainbow Lakes Estates, partly through an acquisition of assets and partly through a purchase of stock. The name of the wholly-owned American subsidiary, Great Sweet Grass Oils Company, will be changed to American Realty and Petroleum Corporation (AMREP) which will issue a total of 2,500,000 shares of common stock with 500,000 shares of common stock being distributed to the shareholders of Great Sweet Grass Oils Limited and 2,000,000 shares to the shareholders of Rainbow Lakes Estates.

As a part of the plan of distribution, the shareholders of Great Sweet Grass Oils Limited authorized a change of the present 20¢ par value shares to no par value shares and a decrease in capital of $500,000 which is to be repaid to the shareholders by the pro rata distribution

of 500,000 shares of AMREP to the shareholders of Great Sweet Grass Oils Limited. Thus, on the completion of the distribution, shareholders will retain the same number of shares in Great Sweet Grass Oils Limited as they now hold and will also receive one share of AMREP for every 10 shares of Great Sweet Grass Oils Limited they own.

Mr. Cromwell stated that Rainbow's earnings on an annual basis are now better than 66¢ per share and Sweet Grass shareholders will participate in the past, present and future earnings of the Rainbow enterprise now merged in the new combined company, which will have a total asset value just over $10,000,000, while retaining the same number of shares in Sweet Grass with its valuable Canadian assets.

Agreement has also been reached to provide funds to develop fully the potential of the Oklahoma Company's water-flood programme and to add to AMREP's oil and gas reserves by future purchase and exploration. Mr. Cromwell declared that both Sweet Grass and Rainbow managements were impressed with the possibility offered to their stockholders by a combination of land and oil. He indicated that plans to acquire more land for development in Florida and elsewhere will be consumated. The present Oklahoma Company's new well in Garvin County, Oklahoma, will be drilled down to the 7500 foot Bromide zone, and will be spudded in within the next two weeks.

For Canadian Sweet Grass, Mr. Cromwell observed

that while there had been many road blocks to overcome, production of gas and oil was on the rise, and he cited steps taken in the agreement with Rainbow by which AMREP assures the parent company of adequate cash through substantial monthly payments in liquidation of an inter-company debt.

Four of the Directors and Officers of the present Sweet Grass Oklahoma Company will become Directors and Officers of AMREP viz James H.R. Cromwell, George Brussel, Jr., Major-Gen. Charles A. Willoughby and Robert B. Berger, and they would join the seven Directors now representing the Rainbow interests -- Leonard Oberman, Irving Blum, Henry L. Hoffman, Chester Carity, Mitchell S. Roberts, Howard W. Friedman and Herman B. Oberman.

The Board of Directors of Great Sweet Grass Oils Limited was re-elected under the Presidency of James H.R. Cromwell, who will likewise act as Chairman of the Board of AMREP. In addition, two new directors were elected, W.E. Stiles of Oklahoma and Col. Jackson Mathews of Texas.

The following condensed, combined financial statement gives effect to the proposed merger-acquisition. Complete statements may be seen beginning at page 14:

AMERICAN REALTY & PETROLEUM CORPORATION

PRO-FORMA CONDENSED COMBINED BALANCE SHEET OF RAINBOW LAKES ESTATES, INC. AND ITS AFFILIATES AND GREAT SWEET GRASS OILS COMPANY (OKLAHOMA) GIVING EFFECT TO THE PROPOSED MERGER

As at April 30, 1961

ASSETS

	Combined	Rainbow Lakes Estates, Inc. and Its Affiliates (Audited)	Great Sweet Grass Oils Company (Okla.) (Unaudited)
Cash on Hand and in Banks	$ 110,913.11	$ 109,537.59	$ 1,375.52
Cash Held in Trust—Subject to Escrow Agreement	170,310.00	170,310.00	
Cash—Collateral Bonds	5,000.00		5,000.00
Contracts Receivable on Lot Sales—(Net of $1,219,571.27 Allowance for Cancellations)	7,109,153.80	7,109,153.80	
Accounts Receivable	29,335.95		29,335.95
Other Receivables	8,106.88	8,106.88	
Subscribers to Capital Stock	82,500.00	82,500.00	
Inventories of Field Supplies	4,880.45		4,880.45
Unexpired Insurance Premiums	1,326.60	858.68	467.92
Land for Sale, at Cost (Encumbered)	1,489,182.77	1,489,182.77	
Houses Under Construction, Unbilled—at Cost	36,247.74	36,247.74	
Model Homes, Including Land	73,533.55	73,533.55	
Oil Field Properties and Equipment—Net	825,693.96		825,693.96
Other Fixtures and Equipment—Net	53,339.22	53,339.22	
Other Assets	27,211.40	25,135.92	2,075.48
	$10,026,735.43	$9,157,906.15	$868,829.28

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts Payable—General	$ 80,316.86	$ 47,051.43	$ 33,265.43
Accounts Payable—Related Interests	687,621.24	687,621.24	
Accounts Payable—Great Sweet Grass Oils, Ltd.	264,081.45		264,081.45
Notes, Mortgages and Loans Payable—Secured	1,252,054.24	1,185,638.24	66,416.00
Customers' Deposits on Sales Contracts	61,473.03	61,473.03	
Accrued Expenses—General	45,493.23	44,743.23	750.00
Accrued Expenses—Related Interests	153,545.76	153,545.76	
Development Costs Under Contract	1,611,978.47	1,611,978.47	
Loans Payable—Related Interests	207,651.71	207,651.71	
Estimated Federal Taxes on Future Collections of Contract Receivables	2,377,117.74	2,377,117.74	
Stockholders' Equity	3,285,401.70	2,781,085.30	504,316.40
	$10,026,735.43	$9,157,906.15	$868,829.28

2. THE FACTS ABOUT RAINBOW LAKES ESTATES

Rainbow consists of 31 Florida corporations owned or controlled by a small group of individuals. The relations between them are such that they may be considered as a single entity for the purpose of describing their business and operations.

10,000 Acres

Rainbow owns approximately 10,000 acres of land near Ocala, in central Florida, the major portion of which it acquired in September, 1959. The land is suitable for homesites and has been divided into about 14,000 lots, mostly one acre or ¼ acre in size. Since the Fall of 1959 Rainbow has been offering such lots for sale by various means, including national advertising campaigns, sales by mail and sales on-the-site. Currently the lots are being offered at prices ranging from $1,795 to $3,595 for one acre lots and from $695 to $1,295 for ¼ acre lots. To date most of the sales have been retail installment sales, although a few homesites have been sold for all cash.

In the case of installment sales, contracts are executed calling for a $10 payment upon signing and monthly payments ranging from $10 to $50, depending on the purchase price. Such contracts call for interest at the rate of 5¾% per annum and the payment schedules are such that the average lot will be fully paid for in about six years, assuming the buyer makes no prepayments.

As of April 30, 1961 approximately 450 lots, having sales prices aggregating approximately $550,000 have been sold and fully paid for, and approximately 7,400 lots have been sold under installment contracts. Through April 30, 1961, a total of $1,500,000 (including interest) had been paid under the installment contracts theretofore executed and the monthly payments currently amount to about $175,000. Based on past experience, it is anticipated that between 10-15% of the contract-buyers will default under their contracts or will exercise the cancellation rights which exist for six months after a contract is signed. Also, based on past experience the management of Rainbow estimates that substantially all of the remaining lots will be sold prior to June, 1962.

Rainbow's Earnings

Annexed to this report is the combined balance sheet of the Rainbow Corporations and its Combined Statement of Earnings and Retained Earnings. It will be noted that, since the Rainbow Corporations have elected to report their income from installment sales on an installment basis, over $2,410,000 had been reserved as of April 30, 1961 for Federal income taxes on future collections on sales contracts. After provision for such taxes, the Rainbow Corporations had retained earnings of more than $2,600,000.

Rainbow is required, under regulations of the Florida Real Estate Commission, to build roads to each homesite on the entire development, amounting to about 160 miles of roads. To date more than 25% of the work has been accomplished. Until such roads are completed, Rainbow is required to set aside in escrow 10% of the gross amounts collected on all sales, and currently about $200,000 is so held. This sum will be released from escrow when the roads are completed.

The land is subject to mortgages currently totaling about $580,000 which is payable over the next four years.

In addition to selling homesites, Rainbow also builds homes on the lots it sells. To date it has built about 40 houses.

3. THE FACTS ABOUT THE PROPOSED OKLAHOMA-RAINBOW MERGER ACQUISITION

You are asked to approve a proposal that 15 of the Rainbow corporations be merged with and into our Oklahoma subsidiary, with Oklahoma as the Surviving Corporation, and that Oklahoma, simultaneously with the merger, acquire all of the issued and outstanding shares of the capital stock of the remaining 16 Rainbow Corporations.

The merger agreement provides for an amendment in the articles of incorporation of Oklahoma to change the authorized capital stock from the present 7,500 shares of common stock, par value $1

per share, to 3,500,000 shares of common stock, par value 10¢ per share. Upon the merger becoming effective, the 3,750 shares of the capital stock of Oklahoma owned by Limited will become 500,000 shares; the 3,750 shares of common stock of Oklahoma held by it in its treasury will become void and cancelled; the shares of the 15 Rainbow Corporations to be merged into Oklahoma upon the merger becoming effective will become and be an aggregate of 1,070,000 shares of Oklahoma, and a total of 930,000 shares of Oklahoma will be issued in exchange for all of the issued and outstanding shares of the 16 Rainbow Corporations which are to be acquired by Oklahoma and become wholly-owned subsidiaries thereof.

Thus, immediately after the merger-acquisition occurs, Oklahoma will have an aggregate of 2,500,000 shares of capital stock issued and outstanding, of which Limited will own 500,000 shares, and the Rainbow Lakes Corporations and its stockholders will own 2,000,000 shares. Claims have been asserted for fees incident to the merger-acquisition. These claims are disputed but if they are successfully asserted Limited and AMREP will each bear 50% thereof. Oklahoma owes Limited approximately $264,000 which is to be repaid in monthly installments of $7,500 commencing after the merger-acquisition becomes effective. Limited has agreed to assign a portion of such debt to secure payment of such fees under the conditions set out in paragraph 6 of the Collateral Agreement enclosed herewith.

AMREP's Board of Directors

Upon the merger-acquisition becoming effective, the board of directors and officers of the Surviving Corporation, which will be renamed American Realty and Petroleum Corp., will be as follows: Robert B. Berger; Irving W. Blum; George Brussel, Jr.; Chester Carity; James H. R. Cromwell; Henry L. Hoffman; Howard W. Friedman; Herman B. Oberman; Charles A. Willoughby; Leonard Oberman and Mitchell S. Roberts.

The Rainbow stockholders have agreed to vote 1,500,000 of the shares of stock of AMREP to be received upon the merger-acquisition for the election of Messrs. Berger, Brussel, Cromwell and Willoughby as directors of AMREP until the end of 1963, or, if any of such individuals are unable or unwilling to serve as directors, for such other persons as Limited may designate provided such other persons are satisfactory to the Rainbow stockholders.

Corporate and Taxation Results of the Proposed Distribution of Stock

The merger-acquisition plan outlined above requires the pro rata distribution by Great Sweet Grass Oils Limited to its shareholders of the 500,000 shares of stock held by it in the surviving Oklahoma Corporation (AMREP) after the merger-acquisition.

In the Directors' opinion, the most advantageous method to the shareholders of carrying out this distribution of stock is in satisfaction of an authorized repayment to the shareholders of a decrease in capital. Such a distribution requires that the resolution to be put before the Special General Meeting be passed by two-thirds or more of the votes cast at the meeting, a prerequisite to obtaining supplementary letters patent.

If the resolution is passed by a majority but by less than two-thirds of the votes cast, the directors are authorized to distribute the shares in such manner as they see fit. The actual result of such a distribution would be the same as if it were part of an authorized repayment of capital, that is, the shareholders would receive 1 share of AMREP for every 10 shares of Great Sweet Grass Oils Limited held by them at the date of the declaration of the distribution.

If supplementary letters patent are obtained authorizing repayment of the decrease in capital to the shareholders, the Company is advised that there will be no tax payable by Canadian taxpayers. However, if the shares of the surviving corporation are distributed as a dividend or bonus (as they will be if the distribution is approved but supplementary letters patent are not obtained) the distribution will be taxed to Canadian resident taxpayers as ordinary income based upon the fair market value of the shares received as a dividend. The Canadian Department of National Revenue has ruled that Great Sweet Grass Oils Limited is a non-resident of Canada. Accordingly, the Company is advised that Canadian resident individual taxpayers will not have the benefit of the 20% dividend tax credit, and American taxpayers will not be subject to Canadian withholding tax.

Under United States income tax laws the basis of the Limited stock held by American taxpayers will be reduced by the fair market value of the AMREP stock received, and after the basis of the

Limited stock is reduced to zero any excess of AMREP's fair market value will be taxable as capital gain.

The Company has obtained the foregoing advice for the information and assistance of the shareholder. The Company believes that this information is accurate, but the Company does not warrant the accuracy or completeness of the information, and shareholders should satisfy themselves as to their individual liability for taxes.

If the distribution of stock is approved by the shareholders, a letter will be sent to each shareholder explaining exactly how the distribution of the shares of AMREP will be made.

Copies of the basic agreements between the parties, i.e. the Merger Agreement, Stock Purchase Agreement and the Collateral Agreement are included as a separate document enclosed herewith.

4. RAINBOW AND THE OKLAHOMA OIL & GAS POTENTIAL

In my last letter to you on October 26, 1960 I did not minimize the unfortunate consequences of the fraudulent proxy fight of that year but I promised that your Board and management would make one more effort towards rehabilitation. I said then: "Sweet Grass is recognized as being in an excellent position for merger-acquisitions and diversification". I was referring to your wholly-owned Oklahoma subsidiary.

Ever since the re-election of your management we have left no stone unturned to canvass the financial and business community in search of a suitable partner to join with us in a long-range program for the reorganization and rehabilitation of Oklahoma. After a nation-wide investigation we concluded that Rainbow was superior to other possibilities in efficiency of management, future potential and opportunity for diversification.

Land and Oil

Furthermore, the Rainbow management, like ourselves, at once grasped the desirability of a combination of land and oil. They agreed to the necessity of expanding the assets of AMREP by the acquisition of new and additional reserves of gas and oil. Likewise, they expressed their desire to finance the possibilities offered by the existing potential assets of Oklahoma, including water-flooding our East Brady and Richardson leases and, in particular, the attractive speculation of drilling through our new Richardson D-3 well, down to the Bromide zone.

To explain the meaning and significance of drilling "down to the Bromide zone", I quote again from my letter of October 26th:

> "Discussions I have held in New York with a representative of the majority shareholders of the Exchange Oil Company, who own the other half of the Richardson Lease, have resulted in an agreement to recommend to our respective Boards that the Richardson partition suit be terminated by mutual consent.
>
> "With the settlement of this suit, both parties would cooperate in the exploratory drilling of a test well to the "Bromide" zone which is in the 7,000 foot area. This exploratory venture would be started in July of 1961 and if successful, the present Richardson reserves be increased many times over. We would have the option for a full partnership participation, or to limit our risk on a farm-out basis."

Agreement With Exchange Oil Co.

I am pleased to report that a formal and satisfactory operating agreement has been signed with Exchange Oil; the menacing partition suit has been terminated and Exchange will commence drilling the Richardson D-3 well to the Bromide zone as soon as this merger-acquisition has been approved. The petroleum experts we consulted about this proposition—and they are among the best in their profession—agreed that full partnership participation for Oklahoma is a "must". But while the reward for success may be fabulous, the enterprise, nevertheless, is highly speculative. And money for "wildcatting" is hard to come by—especially in view of the road blocks to progress left in our path from last year's fraudulent proxy fight.

Money is hard to get, even for ordinary non-wildcat, development operations such as the waterflooding of our unusually suitable Oklahoma leaseholds. Thus the financing of Oklahoma's immediate

and most urgent requirement—money for drilling to the Bromide—plus the agreed upon joint program for the full development and expansion of AMREP's petroleum division, is the first, but by no means the most compelling reason, for the unanimous recommendation of your Board of Directors to Sweet Grass shareholders to vote "yes" for the proposed merger-acquisition we are herein presenting to you.

5. SAFEGUARDS AND ADVANTAGES PROVIDED FOR YOUR COMPANY

At the time this management took office, there was little income from our Canadian properties and the continued functioning of the parent company was supported in large part by the earnings of our Oklahoma subsidiary. Today, as the earnings from Oklahoma have declined, they are being offset by the increase in earnings from our Canadian properties. Due, however, to the burden of debts, litigation and extravagant contracts inherited from the former management which we have been liquidating for nearly four years, the parent company, referred to as "Limited" for brevity, is not yet self-supporting.

In recognition of this, the AMREP merger-acquisition plan provides that the present inter-company debt of Oklahoma to Limited, which, in round figures amounts to $264,000, shall be paid back to Limited at the rate of $7,500 per month until paid in full except that Limited has agreed to assign a portion of the debt to pay possible expenses of the merger-acquisition (described at page 4 of this report). Furthermore, the note to Oklahoma assumed by Kroy Oils will be transferred to Limited in toto. Your management is of the opinion that it may be possible to collect in substantial part this note from Kroy whose face value is $222,256.52 plus accrued interest now totaling nearly $80,000. For further information about this note see page 11.

Limited's Board of Directors

To assure additional protection to all of our shareholders, the President of Great Sweet Grass Oils Limited, the Hon. James H. R. Cromwell will continue, if re-elected by the shareholders at the annual meeting on July 5, 1961, to be chief executive of the parent Canadian company as well as to serve as Chairman of the Board of AMREP. AMREP's Board of Directors, as previously stated, will consist of 11 members, 4 of whom are presently directors of Great Sweet Grass Oils Limited, i. e., Messrs. Berger, Brussel, Cromwell and Willoughby. Seven Directors will be represented by Rainbow's management. Finally, Limited's present Board of Directors, who are the above listed, plus Mr. Roy Norr, will continue to serve if re-elected. In addition, our top-ranking consultant petroleum engineer, Mr. William E. Stiles, will be nominated to fill one of the two vacancies created by the increase of the Board from five to seven at last year's shareholders meeting.

Mr. Stiles is a graduate Petroleum Engineer and Registered Professional Engineer. He has had a total of 20 years experience in petroleum engineering and management, including eight years in field operations with two of the major engineering service companies, five years in reservoir engineering and the management of a prominent engineering service company and seven years as Vice President of Engineering and Production of a large independent oil company. He engineered, developed and managed many primary and secondary recovery projects, including one of the largest and most successful water-floods.

We are in the process of selecting the seventh nominee whose name will be announced at the shareholders meeting.

6. ADDITIONAL FACTS ABOUT THE RAINBOW MANAGEMENT AND PROGRAM

We first met with the Rainbow management in February, 1961, and as the mutuality of our interests and requirements steadily developed your President personally visited the Ocala development. The senior executives of Rainbow gave us their full cooperation and with their aid we spent many days examining every factor, facet, figure and potential connected with the Rainbow organization and property.

We learned that the entire management of Rainbow is actively engaged in analyzing, acquiring and developing land, in the construction of homes, in the nation-wide advertising and sales of lots and in the administration and collection of the accounts receivable created by the sales. In these fields the Rainbow principals are veterans with successful operating records, experience and ability.

The location and quality of the present Rainbow properties plus the planned program for future acquisitions appeared to your management to be superior to that offered by any other of the several land development companies whose plans and properties we inspected. We believe, as does the Rainbow management, that due to the estimated increase in the American population, the opportunities for future community developments should be unlimited. Needless to say, the same efficient procedures which have made Rainbow one of the three or four largest and most successful land companies currently operating in the State of Florida, will be applied to the plans now being formulated for other parts of the country.

7. REPORT ON CURRENT SWEET GRASS OPERATIONS

While planning for the long-range growth of your Company, we have been diligently revitalizing our ordinary day-to-day operations.

Overhead Slashed $53,000 Per Year

With the discharge of A. H. Norton as Vice President and General Manager of your Company, his office and all three field locations were shut down by the end of 1960. These much desired moves to slash overhead have resulted in annual net savings estimated at more than $53,000. While these savings will not become apparent to shareholders in our financial statements until the report on 1961 operations is submitted, the following statement sets forth a close approximation of the savings in round figures:

A. H. Norton & Calgary Operations	$50,800
Toronto Office	10,900
Oklahoma City Office	8,700
Total	$70,400
Less: Added New York Office Costs	17,000
Annual Net Saving	$53,400

An even more beneficial result of the closing of the three offices has been the marked increase in efficiency that has accompanied the consolidation of administration and control in a single office, i.e., your New York office, well located in the world's chief financial center.

Release of Cash From Impounded Steveville Gas Sales

Your management, in partnership with Ranger Oil (Canada) Ltd., was successful in November of 1960, in its legal efforts to require Georgia Leaseholds Limited to state their maximum claim to the impounded funds arising from substantial sales of our Steveville gas field to Trans Canada Pipeline under the escalating price sale of the contract with that Company. As a result, more than $115,000 was released to Sweet Grass from this fund in November 1960. Part of this money was applied to the reduction of our debt to Ranger Oil under the terms of our loan agreement, and part to the routine reduction of debts and obligations we inherited from the former administration.

As of this date, additional negotiations are currently being conducted with Georgia Leaseholds which we hope will result in an equitable settlement, in the immediate future, of this long-standing dispute without further litigation. We estimate that this hoped for settlement will result in the receipt in cash from our interest in the funds still impounded in trust, of an amount in excess of $110,000.

Expected Increase in Income

We have been in constant touch with our associates looking toward unitization in Canada of our East Kessler gas property. This important Alberta gas reserve will be able to deliver gas under an already executed contract with Trans Canada Pipeline as soon as unitization and the construction of the

gathering system have been completed. It is expected that sales from this virgin field will commence by early 1962, thus substantially adding to our income. Your Company owns several leaseholds, in which our interests vary from 18.75% to 50% in this East Kessler field.

Minor Interest Being Unitized

As announced in the February 20, 1961 issue of OILWEEK magazine, your Company, with various other interests in the Namao field of Alberta—where Sweet Grass has interests of 15-30% in four oil-gas wells—are currently seeking to unitize this field. The objective, of course, is to increase sales by constructing a unit gathering system for the sale of gas, as well as oil. Revenues from this field have heretofore been low because of the penalties imposed by high gas-oil ratios.

Miscellaneous Oklahoma Operations

After the 1960 proxy fight your management was faced with the problem of replacing Mr. Norton who had been supervising the Company's field operations as petroleum engineer. For this purpose, and for the purpose of giving your management professional advice of the highest caliber, we employed the services of W. E. Stiles Engineering, Inc. of Tulsa, Oklahoma, a firm well known both in this country and abroad. That firm has improved the Company's operations. Sales of gas from one of our wells were being sold with improperly installed measuring devices resulting in thousands of MCF's of gas never being recorded as sold. It is impossible to calculate just how much this practice has cost the Company.

As a result of expert advice from engineering investigations in the United States and Canada, our production is expected to increase in 1961, particularly after the new Richardson D-3 drilling is completed.

8. EFFECT OF CIGLEN-BLACK INDICTMENT UPON CURRENT LITIGATION.

In May of this year both Samuel Ciglen and Morris Black were indicted by the Canadian Government for an alleged conspiracy to suppress $8,000,000 of taxable income alleged to have been earned in the course of transactions involving Great Sweet Grass Oils Limited and Kroy Oils Limited. In addition, the Canadian Government has asserted further large claims against Ciglen and Black for income taxes. It must be appreciated that, to the extent of any success it may achieve, the Canadian Government has priority to realize upon any assets in which Ciglen and Black have an interest. In view of the large amounts involved the Company's chances of recovering on any judgment it may obtain against Ciglen and Black are not good, at least until the outcome of the Canadian Government's indictment and income tax claims are determined.

At the present time there are four major lawsuits which may be affected, directly or indirectly, by the outcome of these indictments. They are (1) the "Golden West" action claiming damages amounting to $1,363,045.02 filed by your Company in February 1959 against Ciglen-Black and others, (2) the "Kroy-Coronet" suits in Louisiana and Oklahoma demanding payment of a note and collateral mortgage amounting to $222,256.52 plus accrued interest now totaling nearly $80,000, (3) a claim for $300,000 against Ciglen, Black, and others as endorsers of the "Kroy-Coronet" note, filed by your Company in September 1959, (4) a case filed in November 1959 by Samuel Ciglen against your Company and its Directors seeking specific performance on an alleged agreement of settlement, or in the alternative damages in the sum of $500,000.

Because the ultimate disposition of some of our lawsuits has become both uncertain and problematical, due to impending decisions and the Ciglen-Black indictment, I have, in order to avoid a lengthy interruption of the continuity of my report at this point, placed the description of the major cases especially that of the Ciglen case for specific performance (and proceedings in New Brunswick to renew certain mining licenses related to the Golden West action) in an addendum (beginning on page 11). A summary of the litigation in which we are involved, is set forth in the notes accompanying the audit. Because of the importance of this litigation and pursuant to the policy of the Board of Directors to render full and frank disclosure to our shareholders of all matters pertaining to the operation of your Company, I included this additional information in the addendum.

9. ATTEMPTS TO SABOTAGE YOUR COMPANY—PAST, PRESENT, FUTURE

The last letter shareholders received from me dated October 26, 1960 unfortunately had to be chiefly confined to informing you of the end results of the efforts by certain notorious persons, presently indicted by their respective governments (of the United States and Canada) in association with others, to unseat your Board of Directors. I quote from my letter:

> "From the very beginning the purpose was clear: (1) to return your Company to the eventual control of a thinly disguised Canadian wrecking group which had watered your Company's assets, drained its treasury, exploited its shareholders and created the "Great Sweet Grass Swindle"; and (2) to hand over your Company's management to certain 'oilmen from Texas', friends and confederates of American boiler-room operators notorious for their stock manipulations."

These efforts, you will recall, were finally halted by decisions of two Federal Courts and the New York Supreme Court which nullified as fraudulent proxies solicited by the two "Committees" fronting for these indicted persons.

Rule or Ruin

I am convinced that the reasons that moved these persons to launch their proxy campaign for "rule or ruin" were three-fold:

1. They desperately needed a captive management to quash the Golden West lawsuit for $1,363,045.02 we had filed against certain of your Company's former officers and directors.

2. As a result of our program of rehabilitation the potential value of Sweet Grass was ripe for realization to the point that the two "Committees" must have spent at least $50,000.00 to regain control for the purpose of re-exploiting Sweet Grass.

3. Failing that ambition, they were ready to attempt to destroy Sweet Grass hoping in this way to terminate the Golden West lawsuit.

Relentless Efforts

Because the conspiracy to seize control did fail, it is essential that shareholders be fully informed concerning the relentless efforts by the instigators of the "Great Sweet Grass Swindle" to complete the job of wrecking your Company. It is only through understanding the significance of recent events that you will be able to perceive and defend yourselves against immediate and future attempts to sabotage your Company.

These attempts began with the announcement contained in my report dated November 11, 1959 that negotiations to settle the "Golden West" lawsuit against Samuel Ciglen and others had been abandoned. I quote from that report:

> "Your Board of Directors, convinced of the validity and merit of our claims as advised by our Canadian and American counsel, felt compelled to reject the terms (of settlement) as being completely inadequate."

This same report proposed a comprehensive plan for capital reorganization, "to supply management with the tools required for a dynamic and progressive growth program". Shareholders must constantly bear that brief sentence in mind, for the primary purpose of the conspirators has been and still is to prevent and delay the rehabilitation of Sweet Grass by denying to management the "tools" with which to effect the merger-acquisitions necessary to keep your Company alive.

10. HOW THE CONSPIRATORS ATTEMPTED TO BLOCK THE PROGRESS OF YOUR COMPANY

I use the words "conspirators" advisedly for it was through a conspiracy between former officers that the desire by management and shareholders alike for capital reorganization was frustrated by unconscionable and highly technical litigation. At the shareholders meeting of November 25, 1959 out of

a total of 2,494,533 shares voted 2,384,064 were voted in favor of management's plan for capital reorganization. Thus it is clear that our shareholders tried their best to give us the tools we so urgently needed.

Nevertheless, the litigation had its intended effect. To avoid months of delay awaiting a Court decision as to the legality of the November 25 meeting, another expensive meeting of shareholders had to be called on April 4, 1960 to confirm the actions taken at the November meeting. In the interim, the conspirators—using as a front the former Vice-President, Director and General Manager of your Company, A. H. Norton, a holdover from the old regime—had time to prepare in secrecy the costly proxy campaign launched the same day my report dated March 15th was mailed to shareholders.

The conspirators thought that, having deprived us of our reorganization plan, they had you and your management "over a barrel". They thought they could force us to call off the Golden West lawsuit and let them go scot free—free of paying a penny of compensation to shareholders for the terrible losses inflicted by their depredations. They were quite wrong.

WHAT YOU MAY HEAR FROM PUPPET "COMMITTEES"

Finally, let me close with this urgent message: In your own interest consider and act immediately upon the merger-acquisition now submitted to you by signing and mailing your proxy at the earliest possible moment.

I have sought to review with you not only our opportunities but the sorry record of manipulators who have used every device to stop our progress; I still want to alert you against such influences.

For again you may hear of superior management in the offing and promises of greater income by puppets of oil and mining promoters; the courts have judged how false and fraudulent their promises were last year.

Again you may hear of the allegedly higher income achieved by former management, though you will not hear of the loss of $27,000,000 in the market value of your Company's securities, for which their disastrous management was responsible.

You may be told of the failure to date to re-list your Company's stock on the American and Toronto Stock Exchanges but you will not be told that it was the fear that destructive elements might seize control of your Company that delayed such re-listing.

You may hear again of "extravagant management", but you will not be told of the fact that we have saved $53,000 net a year by the consolidation of our offices.

I believe the opportunity presented for this and further diversifications will more than make up for two years of lost work and efforts imposed on your management by those whom the law is now accusing. But opportunity does not always knock twice.

I do not believe that our shareholders this time will or can afford to miss a merger-acquisition that should place your Company on the road to solid and profitable achievement.

For the Board of Directors

James H.R. Cromwell

PRESIDENT, GREAT SWEET GRASS OILS, LTD.

Note: Shareholders will find the over-the-counter-market prices of Great Sweet Grass Oils Limited quoted in "The Financial Post" 481 University Ave., Toronto and "The Wall Street Daily" 80 Wall St., New York 5.

ADDENDUM

Litigation

Collection of Kroy Note: We have recently learned that our Oklahoma subsidiary has won the second round of a legal battle with Kroy American Oils, Inc., over the collection of $222,256.52 (U.S.) plus interest, claimed on a note (hereinafter referred to as the "Kroy-Coronet note") secured by a collateral mortgage on oil property in Louisiana. The Supreme Court of Louisiana has reversed the decision of the lower Court dismissing our complaint and ordered the case to go to trial.

In addition, the Oklahoma subsidiary has instituted an action in Oklahoma against Pamoil Ltd. (formerly Kroy Oils, Ltd.) and Kroy-American Oils, Inc., looking towards the collection of the above note. In this action all of the capital stock of Kroy-American Oils, Inc. held by its Canadian parent company, Pamoil Ltd. has been attached. Thus, even if further decisions should go against the Oklahoma company, (for instance, due to any legal technicality of Louisiana law), we would have the added security of this new Oklahoma action with its attachment of Kroy-American's capital stock.

Ciglen's Action to Force Settlement. The same Kroy-Coronet note and the litigation relating to it was the major reason for abandoning efforts to reach a settlement of the outstanding actions and claims between the Company and Samuel Ciglen, Morris Black and others. At the time, in my report of November 11, 1959, I said that we had abandoned the settlement because we considered "the terms as being completely inadequate". In the fall of 1959 the directors were willing, for business reasons, to consider settling all of the claims between the Company and Ciglen, Black and others *if an adequate settlement* could be reached. The main purpose was to terminate the Ciglen litigation which was making it difficult for the Company to secure regular financing.

Negotiations between the parties took place. It was intended that a completed agreement be reached and executed and that the agreement then be submitted to the shareholders of the Company for their approval and ratification. The final terms of settlement offered to the Company would have brought Sweet Grass a consideration of over $250,000 but would have required the assignment of the Kroy-Coronet note of the face value of $300,000 of which the unpaid balance of over $220,000 (U. S.), plus interest, still remained for collection. At that time our Louisiana counsel gave the Company a one out of ten chance of enforcing the collateral mortgage securing the note and we were of the opinion that there would also be great difficulty in collecting the note against Kroy-American Oils, Inc. who had denied liability on the note after paying some $77,000 to the Company.

Why Settlement was Abandoned

Not the least of the difficulties involved in valuing this note was the fact the note and collateral mortgage were originally made payable to Samuel Ciglen and Morris Black who had purportedly assigned them to Torny Financial Corporation, one of the other defendants in the Company's lawsuits, and it was from Torny that Great Sweet Grass first acquired the note and the mortgage, later transferring them to its Oklahoma subsidiary. The mortgage was represented to the parent company to be a first registered mortgage on the Louisiana properties which later turned out not to be the fact. During the negotiations Ciglen claimed that the note was collectible but this conflicted with the information the Company had at the time. Furthermore, the more than $250,000 to be paid by Ciglen and the others to the Company was to be offset by a Ciglen claim against Great Sweet Grass for $95,000 for legal services and a claim of Torny Financial Corporation (controlled by Morris Black) for about $56,000, with the result that the balance to be paid to the Company in cash amounted only to approximately $110,000.

The directors of the Company had considered the matter and (with George Brussel, Jr., dissenting) had given conditional approval to the settlement. It was at this point that the Company learned from its Oklahoma counsel that there was a good chance of collecting the note from Kroy-American Oils, Inc. In the event it became necessary to attribute substantial value to the note, which was to be returned to Messrs. Ciglen and Black, the value of the $110,000 for the release of all the Company's claims against them became greatly diminished.

This fact, plus information that an important group of shareholders had threatened to sue if this settlement agreement were made with the Ciglen group, led to the abandonment of the settlement negotiations.

Ciglen Files Suit

Ciglen thereupon filed suit against your Company and the directors, individually on the grounds of breach of contract and sought to force the directors to present an alleged settlement agreement to the shareholders. Because of the nature of his claim he succeeded in postponing the trial of the Golden West lawsuit against him. The suit of Ciglen against the Company and the directors to force a settlement was tried in the Supreme Court of Ontario, Canada, during the week of May 15, 1961, and it is anticipated that a decision in this action may be rendered during the summer.

I think it is important that the shareholders appreciate the significance of this action. If Ciglen's action is successful, the Company will be obliged to call a meeting and submit the alleged settlement agreement for the approval of the shareholders. If approved, the settlement agreement would effectively terminate all the Company's actions and claims against Ciglen, Black, et al., and would require the return of the Kroy-Coronet note to a Company controlled by them. Great Sweet Grass would receive only $110,000, approximately.

If Ciglen's action fails, the Company is then free to try the Golden West action and any other claims or actions which it may be advised to pursue against Ciglen and Black. If the Company were successful in this action, Ciglen's claim for $95,000 in fees and Torny's claim for approximately $56,000 could be set off against the Company's judgment and the Company would be able to cancel these liabilities which are still shown on the Company's balance sheet.

Ciglen Indicted

However, in May of this year both Samuel Ciglen and Morris Black were indicted by the Canadian Government for an alleged conspiracy to suppress $8,000,000 of taxable income alleged to have been earned in the course of transactions involving Great Sweet Grass Oils Limited and Kroy Oils Limited. In addition, the Canadian Government has asserted further large claims against Ciglen and Black for income taxes. It must be appreciated that, to the extent of any success it may achieve, the Canadian Government has priority to realize upon any assets in which Ciglen and Black have an interest. In view of the large amounts involved the Company's chances of recovering on any judgment it may obtain against Ciglen and Black are not good, at least until the outcome of the Canadian Government's indictment and income tax claims are determined.

New Brunswick Mining Licenses. Your management has been confronted with an exasperating and troublesome situation concerning its mining licenses covering 41 New Brunswick mining claims which are required for part of the relief claimed by the Company in its Golden West lawsuit. These claims were originally purchased for $1,640 by Morris Black, a former officer and director of Sweet Grass, and, after a complicated series of multi-corporate manipulations were sold to your Company for cash and stock valued at $1,363,045.02.

Through misdirected correspondence and lack of warning to the Company on the part of the New Brunswick Department of Mines, and some misunderstanding and inadvertent errors on our part, our licenses for the 41 mining claims were allowed to lapse, principally for the non-payment of $410 within the time allowed. Because this area, when reopened for staking, represented to mining prospectors a chance to get something for nothing, it was restaked by other companies and individuals including, fortunately, at least one person friendly to the Company.

Importance of the Licenses

Your President promptly applied to the Minister of Mines to restore the licenses covering the 41 claims to Sweet Grass on the grounds of common justice in view of the minor and unintentional errors. The Minister, who may at his discretion renew the licenses, appointed an adjudicator to determine

the facts involved, and I have made two trips to Frederickton, New Brunswick, accompanied by our Canadian counsel, to testify in the proceeding. It is improbable that any decision will be reached in the matter until early fall. The importance of these claims to Sweet Grass is not their value which was estimated by a reputable mining consultant in Toronto to be about $5,000 as of December 31, 1957, but in the fact that they would be needed to support our claim in the Ontario Court for rescission of the Golden West transaction, i. e., we argue that the Court require the former officers and directors to take back the 41 claims and to turn the money and shares valued at $1,363,045.02 to your Company. Although the possible loss of these claims would not affect your Company's demand for damages for the same amount, $1,363,045.02, it may prevent the claim for rescission from being pressed.

For this reason and because your management does not propose to permit any Sweet Grass property to be unjustly forfeited through inadvertence, we will continue to insist upon the restoration of our mining licenses*.

---

* Other details of the above mentioned litigation and other litigation in which the Company is engaged are contained in the notes to the Financial Statements.

GREAT SWEET GR
AND ITS WHOLLY-
GREAT SWEET GRASS OI

CONSOLIDATED BALANCE SHEETS

(Stated i

ASSETS

	1960	1959
CURRENT ASSETS:		
Cash	$ 62,550.87	$ 93,094.49
Cash Collateral (U. S. $5,000) (Note 2)	4,756.50	4,756.50
Total Cash	$ 67,307.37	$ 97,850.99
Marketable Securities—At Cost (Market—$7,922.97)	$ 9,412.50	$ —0—
Accounts Receivable—Trade—Net of Reserves	$ 51,001.34	$ 23,151.00
Associates in Joint Lease Operations and Others, Less Allowance for Doubtful Accounts $7,049.00 in 1960 and $5,866.10 in 1959	9,411.27	10,757.02
Total Accounts Receivable	$ 60,412.61	$ 33,908.02
Inventories of Supplies at Estimated Value	$ 6,965.86	$ 5,442.77
Other Current Assets	1,811.32	2,513.18
TOTAL CURRENT ASSETS	$ 145,909.66	$ 139,714.96
NOTE RECEIVABLE: (Note 2)*	—	—
INVESTMENT IN SUBSIDIARY COMPANIES NOT CONSOLIDATED (Note 3)	$ 4.00	$ 4.00
OTHER ASSETS: (Note 4)		
Accounts Receivable from Gas Sales—Impounded Pending Legal Determination	$ 20,491.92	$ 86,411.41
Deferred Accounts Receivable—Net of $3,500.00 Reserve	13,566.01	14,724.51
Drilling and Other Deposits	6,320.06	19,996.15
TOTAL OTHER ASSETS	$ 40,377.99	$ 121,132.07
FIXED ASSETS: (Notes 5 and 6)		
Property, Leaseholds and Equipment	$2,367,564.66	$2,364,130.85
Less: Accumulated Depreciation, Depletion and Amortization	856,019.04	710,613.14
TOTAL FIXED ASSETS	$1,511,545.62	$1,653,517.71
DEFERRED CHARGES:		
Deferred Loan Discount and Cost—Unamortized	$ 3,247.32	$ 6,180.23
Incorporation Expense—Unamortized	—	657.90
TOTAL DEFERRED CHARGES	$ 3,247.32	$ 6,838.13
TOTAL ASSETS	$1,701,084.59	$1,921,206.87

* Kroy Note—Interest and Principal $222,263.73, fully reserved.

The accompanying notes form

SS OILS LIMITED
VNED SUBSIDIARY
S COMPANY (OKLAHOMA)
S AT DECEMBER 31, 1960 AND 1959
nadian Currency)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1960	1959
CURRENT LIABILITIES:		
Notes Payable—Due Within One Year—Secured—(Note 6)	$ 123,255.56	$ 81,928.99
Notes Payable—Due Within One Year—Unsecured	1,500.00	1,800.00
Accounts Payable and Accrued Liabilities	201,350.22	99,314.43
Contractual Settlement Payable	—	5,000.00
	$ 326,105.78	$ 188,043.42
Accounts Payable Pending Legal Determination in Respect of:		
Former Management (Note 7)	$ 114,370.76	$ 132,372.06
Others (Note 8)	71,976.29	95,444.41
	$ 186,347.05	$ 227,816.47
TOTAL CURRENT LIABILITIES	$ 512,452.83	$ 415,859.89
LONG TERM DEBT (Note 6)	103,330.10	244,098.51
CONTINGENT LIABILITIES (Note 9)		
TOTAL LIABILITIES	$ 615,782.93	$ 659,958.40
SHAREHOLDERS' EQUITY: (Note 10)		
Capital Stock—5,000,000 Shares Issued and Outstanding, Par Value 20 Cents (Par Value was reduced from $1.00 to $.20 by the Quasi-Reorganization of December 31, 1958	$1,000,000.00	$1,000,000.00
Capital Surplus—($1,439,069.04 before the Quasi-Reorganization)	442,473.88	442,473.88
	$1,442,473.88	$1,442,473.88
Accumulated Deficit—January 1, 1960 and 1959 ($4,996,595.16 Before the Quasi-Reorganization Effective January 1, 1959	$ 181,225.41	$ —0—
Net Loss for the Years 1960 and 1959	175,946.81	181,225.41
Accumulated Deficit—December 31, 1960 and 1959	$ 357,172.22	$ 181,225.41
TOTAL SHAREHOLDERS' EQUITY	$1,085,301.66	$1,261,248.47
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,701,084.59	$1,921,206.87

APPROVED ON BEHALF OF THE BOARD:
JAMES H. R. CROMWELL *Director*
ROBERT B. BERGER *Director*

integral part of this Statement.

GREAT SWEET GRASS OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the Years Ended December 31, 1960 and 1959

(Stated in Canadian Currency)

	1960	1959
REVENUE FROM PRODUCTION	$396,532.55	$488,991.72
EXPENSES:		
Production Expenses	$159,701.39	$194,725.44
Lease Rentals	7,514.55	8,008.06
Abandoned Properties (Note 5)	8,398.33	19,905.32
Geological and Exploration Expenses	4,477.29	3,434.73
Mining Licenses	—0—	410.00
Field Expenses	—0—	107.91
Dry Hole Costs	—0—	864.21
Engineering Fees	10,658.38	27,751.44
Taxes—Other Than Income	1,697.26	1,247.77
Shareholders' Meeting Expenses and Transfer Agent's Costs	21,607.44	21,500.83
Administrative Expenses—Schedule 1	134,873.53	128,381.51
Depletion and Depreciation (Note 5)	143,638.42	193,798.30
Depreciation of Furniture and Automotive Equipment (Note 5)	1,751.03	2,732.98
TOTAL EXPENSES	$494,317.62	$602,868.50
NET OPERATING LOSS	$ 97,785.07	$113,876.78
NET OTHER CHARGES:—SCHEDULE 2	17,890.47	36,089.28
Net Loss for the Year—Before Extraordinary Expenses	$115,675.54	$149,966.06
EXTRAORDINARY EXPENSES[1]	79,033.25	40,517.67
NET LOSS FOR THE YEAR	$194,708.79	$190,483.73
Less: Prior Period Credits—Schedule 3	18,761.98	9,258.32
NET LOSS TO DEFICIT	$175,946.81	$181,225.41

[1] EXTRAORDINARY EXPENSES:

Expenses of Extra Annual Meeting and Proxy Actions	$76,485.00	
Public Relations and Publicity, thereto	2,548.25	
Settlement of Garret Employment Contract	—0—	$14,287.50
Legal and Accounting	—0—	26,230.17
	$79,033.25	$40,517.67

The Accompanying Notes Form an Integral Part of this Statement.

GREAT SWEET GRASS OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)

(Stated in Canadian Currency)

Schedule 1

CONSOLIDATED ADMINISTRATIVE EXPENSES

	1960	1959
Executive Salaries and Director's Fees*	$ 22,367.94	$ 20,693.54
Office Salaries	15,023.89	18,253.12
Payroll Taxes and Insurance	1,282.95	780.46
Temporary Office Help	567.59	637.20
Travel and Entertainment	10,078.58	14,778.98
Legal Fees and Expenses	53,609.62	29,750.06
Audit Fees and Expenses	7,730.70	15,922.55
Secretarial and Accounting Fees	2,755.17	8,137.00
Financial Consultant Fees and Expenses	1,754.33	—0—
Brokers' Forwarding Charges	1,682.95	—0—
Shareholders' Reports	1,202.40	—0—
Public Relations and Publicity	3,034.65	—0—
Office Rent, Heat and Light	5,492.66	7,010.21
Other Office Operating Expenses	7,107.20	10,880.53
Provision for Bad Debts	1,182.90	880.73
Miscellaneous Taxes and Fees	—0—	657.13
Total Administrative Expenses	$134,873.53	$128,381.51
* Directors' Fees Included above	—0—	$9,218.88

Schedule 2

CONSOLIDATED OTHER INCOME AND CHARGES

	1960	1959
OTHER INCOME:		
Interest	$ 3,684.88	$ 1,731.58
Overhead Income	4,267.48	7,718.93
Other Income	334.26	1,182.10
Profit on Sale of Fixed Assets	1,476.88	—0—
	$ 9,763.50	$ 10,632.61
OTHER CHARGES:		
Interest	$ 16,537.41	$ 21,147.42
Amortization of Incorporation Expenses	657.90	657.90
Realized Loss on Foreign Exchange	6,916.17	4,340.20
Amortization of Production Loan Costs	3,542.49	—0—
Loss on Sale of Capital Assets	—0—	20,576.37
	$ 27,653.97	$ 46,721.89
NET OTHER CHARGES	$ 17,890.47	$ 36,089.28

Schedule 3

CONSOLIDATED PRIOR PERIOD CREDITS

	1960	1959
Reduction of Accounts Payable Pending Legal Determination—Others (Notes 7 & 8)	$ 24,851.14	$ —0—
Settlement of Former Employee's Claim	(1,500.00)	—0—
Transfer Agents Fees and Expenses	(7,433.38)	—0—
Other	2,844.22	412.93
Depletion in Excess of Cost Charged in 1958	—0—	4,665.39
Reduction of 1957 Transfer Agents Fees	—0—	3,000.00
Adjustment of Accounts Payable Balances	—0—	1,180.00
TOTAL PRIOR PERIOD CREDITS	$ 18,761.98	$ 9,258.32

The Accompanying Notes Form an Integral Part of these Statements.

DAVID KESTENBAUM & CO.
CERTIFIED PUBLIC ACCOUNTANTS

PENNSYLVANIA 6-5972

DAVID KESTENBAUM, C.P.A.
JEROME BEARMAN, C.P.A.
REUBEN R. MANDEL, C.P.A.
BERNARD LIPPERT, C.P.A.
SAMUEL BERGER, C.P.A.

33 West 42nd Street, New York

AUDITOR'S REPORT

To The Shareholders and Board of Directors
GREAT SWEET GRASS OILS LIMITED:

We have examined the accompanying consolidated balance sheets of Great Sweet Grass Oils Limited and its wholly-owned subsidiary Great Sweet Grass Oils Company (Oklahoma), as at December 31, 1959 and December 31, 1960, and the consolidated statements of profit and loss, for the years ended December 31, 1959 and December 31, 1960. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records, and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet as at December 31, 1959 and December 31, 1960, and the accompanying consolidated statements of profit and loss, for the year then ended, together with the notes thereto present fairly the consolidated financial position of Great Sweet Grass Oils Limited and its wholly-owned subsidiary at December 31, 1959 and December 31, 1960, and the results of operations for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the respective preceding years. Our reports for the calendar years ended December 31, 1959 and December 31, 1960 are dated September 15, 1960 and May 22, 1961, respectively.

DAVID KESTENBAUM & CO.

David Kestenbaum & Co.
Certified Public Accountants

GREAT SWEET GRASS OILS LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1960

(All Amounts in Canadian Dollars Unless Otherwise Stated)

(1) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Great Sweet Grass Oils Limited and its wholly-owned subsidiary Great Sweet Grass Oils Company an Oklahoma, U.S.A. corporation. All intercompany items and transactions have been eliminated in the consolidated financial statements.

The accounts of the Oklahoma subsidiary have been converted to Canadian dollars on the following bases:

Current assets and current liabilities—at the rate of exchange prevailing at December 31, 1960.

Fixed assets and long term liabilities—at the rate in effect in the period in which the transaction took place.

Revenue and expenses—at the average rate for the year 1960.

Depletion and depreciation—at the same rates as the related fixed asset accounts.

In consolidation, the accumulated losses of the Oklahoma subsidiary through December 31, 1958, were charged to Capital Surplus consistent with the principles of quasi-reorganization. This amounted to $276,460.00 (U.S. $279,166.44)

The accounts of two inactive subsidiaries, wholly-owned, are not included in the consolidated financial statements, since together they do not constitute a significant subsidiary. (See Note 3)

(2) NOTES RECEIVABLE:

Kroy American Oils, Inc. had assumed the obligation provided in a certain note and act of mortgage, when its parent, Kroy Oils Ltd. acquired properties from Coronet Development Corporation, in 1956. The details of the instrument have been presented in earlier audited reports.

On April 7, 1958, the company instituted action against Kroy American Oils, Inc. in the First District Court, Parish of Caddo, State of Louisiana. The action, so filed, was in the nature of one seeking a declaratory judgment to determine that the mortgage made by Coronet Development Corporation to Samuel Ciglen and Morris Black, allegedly securing a note in the principal sum of $300,000.00, is a valid lien on oil and gas leasehold estates transferred to Kroy American Oils, Inc. The aforesaid mortgage and note were assigned, subsequently, to Great Sweet Grass Oils Limited.

The petition alleged that there was a balance due on the mortgage and the note in the amount of (U.S.) $222,226.73. A judgement in favor of Kroy American Oils, Inc. was appealed to the Supreme Court of the State of Louisiana. On February 29, 1959, National Surety Corp. issued its collateral receipt as evidence of the company's cash collateral in the amount of (U.S.) $5,000.00 covering an appeal bond in connection with the company's appeal. The court ruled in favor of Great Sweet Grass in this subsequent action, but its opponent has served notice of its intention to appeal.

In view of the pending litigation, additional interest which has accrued beyond the amount included in the alleged action, has not been reflected in the financial statements.

In further consideration of such pending action and not because it is the view of the management that the unpaid balance (less a 20% contingent lawyers' fee) is not collectible, but to conform with accepted accounting principles in the circumstances, a full reserve has been raised against the total balance sheet amount of $222,263.73.

It is the opinion of the company's American counsel that regardless of the outcome of this case, Kroy American Oils, Inc. would not be permitted, legally, to recover any portion of amounts heretofore paid thereon.

(3) INVESTMENT IN SUBSIDIARIES NOT CONSOLIDATED:

Sweet Grass Oils (B.C.) Ltd. and Great Sweet Grass Oils (Quebec) Ltd. are wholly-owned inactive subsidiaries. The investments therein are carried at $1.00 and $3.00 respectively.

(4) OTHER ASSETS:

Included herein is the disputed portion of the net proceeds realized from the sale of gas produced at the Steveville field in Alberta by Canex Gas Ltd. which is being held by National Trust Co. of Calgary pending the final determination of the respective interests of Georgia Leaseholds Ltd. on the one hand and Ranger Oils, Ltd. and Great Sweet Grass Oils, Ltd. on the other. Great Sweet Grass Oils, Ltd. has asserted, and is carrying its interest at the minimum rate of 37½% of the joint 50% interest held by the afore-named parties.

In November of 1960, Georgia Leaseholds, Ltd. was requested to declare its maximum claim. Their reply was a claim for 25% of the entire field. Following such declaration, a portion of the impounded funds was distributed to each of the parties. Great Sweet Grass Oils Limited received $54,319.05, and $61,316.04 was remitted directly by the trustee to Ranger Oils, (Canada) Ltd. in accordance with the loan agreement recited in detail in Note 6 below. The undistributed portion still remaining to the credit of the company on the 37½% basis amounted to $20,491.92.

(5) FIXED ASSETS:

SUMMARY OF ACCOUNTING PRACTICES

Acquisition costs of petroleum and natural gas interests are capitalized. In certain cases acquisition costs were revised in 1957 to give effect to revaluations authorized by the Board of Directors. Exploration expenditures are

deferred until the results can be assessed, at which time they are capitalized as costs of the properties retained or are written off to income, as appropriate. Costs of abandoned properties are written off at the time of surrender. Costs of wells which are capable of producing in commercial quantities are capitalized. Dry hole costs are written off in the period in which they are determined to be non-productive. Lease and reservation rentals and other carrying charges on undeveloped properties are charged to income at the time of payment.

Depletion of producing property costs and amortization of producing well costs are provided for by the unit of production method, based upon estimates of commercially recoverable oil and gas reserves prepared by independent consulting geologists. Depreciation of production equipment, buildings, etc. is provided on the straight-line method at rates estimated to be sufficient to recover the cost of the assets over their useful life.

Maintenance and repairs are charged to expense when incurred and betterments which extended the useful life of the assets are capitalized.

On retirement or sale of items of property the difference between the net book value of the items and the proceeds, if any, is charged or credited to the income account.

Where property is acquired without direct cost, a nominal value of $1.00 is assigned to each property so acquired, for purpose of record and control only.

Consistent with such accounting practices, charges were made in the various property accounts during the year.

On March 6, 1959 an action was filed in the District Court of Garvin County, Oklahoma, against the Oklahoma Company and other parties by Exchange Oil Company, to partition ownership of certain oil and gas leases known as the North Hoover Field in Garvin County. Of the 17 wells located in this field 16 are owned jointly by Great Sweet Grass Oils Company and Exchange Oil Company, each having an undivided one-half interest therein. The remaining one well is owned jointly by Great Sweet Grass Oils Company, Exchange Oil Company and Edwin Cox. Their interests in said well are 25% each for Great Sweet Grass Oils Company and Exchange Oil Company with the remaining 50% owned by Edwin Cox.

The partition suit against the Oklahoma Company, which was filed on March 6, 1959 by Exchange Oil Co., was granted by the Court on December 7, 1959. While this action, according to company's counsel, does not dispute company's title to its interest in the leases recited in the partition suit, the effect, thereof, would be a sale of such leases at public auction or a partitioning in kind of such leases. As a result of this partitioning grant by the Court, an attempt was made to secure an agreement between the parties for a partition in kind. This attempt failed. On February 19, 1960 an Independent appraiser filed with the Court a report valuing the properties at $667,187.50. On February 29, 1960 both litigants indicated their intentions of acting on the appraisal, by offering to purchase the leases at the appraised value. The resultant standstill, since none of the parties in this action requested a public auction sale of the properties, is still in existence at this writing.

See Note 11 for further developments concerning this issue.

(6) Empire Trust Co. of New York:

(1) On December 29, 1959 the company received from the Empire Trust Company of New York the proceeds from a (U.S.) $175,000 refinancing production mortgage loan on its holdings in Oklahoma. As additional security, there is a guarantee of this loan on the part of the Canadian parent company. The terms of the loan provide for monthly repayments of principal at the rate of (U.S.) $7,756.00 together with interest at 5¾% per annum.

The loan agreement provides for accelerations of payment in the event of sales of assets covered by the mortgage agreement, to the extent that should the company sell its interest in the Richardson leases in the North Hoover Field in Oklahoma, (U.S.) $122,500 of the proceeds would be applied against the loan on account of principal and interest. In like manner should the company sell the "McClain" Leases in the East Brady Field in Oklahoma, (U.S.) $35,000 of the proceeds from such sale would be applied against the loan on account of principal and interest. As at December 31, 1960 the balance of the loan was in the amount of $97,108.70. (U.S. $97,440.00)

Ranger Oil (Canada) Ltd.:

(2) Under an agreement dated February 16, 1959, this loan was obtained from Ranger Oil (Canada) Ltd. The agreement recites that differences have arisen between Great Sweet Grass Oils Limited and Ranger Oil (Canada) Ltd., on the one part, and Georgia Leaseholds Limited, on the other, concerning their respective shares of their undivided fifty per cent interest in the Steveville Gas Field. Georgia Leaseholds Limited has already instituted an action to determine the various interests. Included in the agreement are the following provisions:

(1) The collective interests of Great Sweet Grass Oils Limited are apportioned between them in the proportion of an undivided 24/37ths part thereof to Great Sweet Grass Oils Limited and an undivided 13/37ths thereof to Ranger Oil (Canada) Ltd. In the event that Georgia Leaseholds Limited is determined to be the owner of any interest, the collective interest of Great Sweet Grass Oils Limited and Ranger Oil (Canada) Ltd., in such leases in which Georgia Leaseholds Limited is determined, shall be apportioned in the ratio of 24 to 13.

(2) Ranger Oil (Canada) Ltd. loaned to Great Sweet Grass Oils Limited, contemporaneously with the execution and delivery of this agreement, the sum of $100,000.00. As security, therefore, Great Sweet Grass Oils Limited gives to Ranger Oil (Canada) Ltd. a first mortgage upon one-third of the interest in the Steveville Gas Field of Great Sweet Grass Oils Limited.

(3) Great Sweet Grass Oils Limited agrees to repay said sum of $100,000.00 to Ranger Oil (Canada) Ltd. together with interest at 6% per annum as follows: (i) at the time National Trust Company Limited, which is holding in trust 50% of net proceeds from the sale of production from the Steveville Field for the account of the three parties concerned, makes a first distribution of said funds, one-half of the amount payable to Great Sweet Grass Oils Limited but not in excess of $50,000.00; (ii) one-third of all monies which shall become payable by the

said trust company to Great Sweet Grass Oils Limited after the date of such first distribution, and (iii) the net proceeds of production from the one-third interest of Great Sweet Grass Oils Limited subject to the mortgage given as security for the loan, until the loan with interest is paid in full. Great Sweet Grass Oils Limited has the right to repay all or any part of the loan at any time.

(4) Great Sweet Grass Oils Limited will sell to Ranger Oil (Canada) Ltd., and the latter will purchase 2% of the entire working interest of all parties in the Steveville Field for $50,000.00.

(5) Ranger Oil (Canada) Ltd. loaned Great Sweet Grass Oils Ltd., in accordance with the agreement, the sum of $50,000.00 bearing interest at 6% per annum. The amount will be liquidated upon final determination of the interest of Georgia Leaseholds, Ltd. by conveyance of the aforementioned 2% interest.

(6) Great Sweet Grass Oils Limited and Ranger Oil (Canada) Ltd. will pool their respective natural gas rights in the Basal Colorado and Blairmore formations of which each is the sole beneficial owner, so that the same shall be owned, developed and operated for their joint account in the proportions of an undivided two-thirds and one-third interest respectively. In counsel's letter, dated January 9, 1961, we are informed that the Litigation "has not progressed beyond the issuance of a statement of claim . . . it is impossible to say what the outcome of this lawsuit (between Georgia Leaseholds, Ltd. V. Ranger Oils, Ltd. and Great Sweet Grass Oils Ltd.) will be."

However, since the maximum claim on the part of Georgia Leaseholds, Ltd. has now been determined, (see note 5 above) that portion of the original $100,000.00 loan from Ranger Oils, Ltd., which will be paid within one year, has been reflected as a current liability on the accompanying balance sheet.

(7) Accounts Payable Pending Legal Determination in Respect of Former Management:

One account has been removed from the Balance Sheet on the ground that it is unlikely that a claim will be made. The account is an alleged debt owing to a former officer in the amount of $5,000 (US). In the unlikely event of a claim, the Company has been advised that counter-claims offsetting the alleged debt can be made against this former officer.

In a final change of the liabilities in this category, the amount previously carried as due to Sanford, Dickie and Oughton for legal services was reduced by $1,321.30 to $11,000.00. In accordance with the agreement, that this amount would be liquidated at the rate of $1,000.00 per month commencing January 1961, the entire amount of $11,000.00 is now included in accounts payable.

On February 18, 1959, the company filed a statement of claim in the Supreme Court of Ontario against Samuel Ciglen, Morris Black and others for the purpose of obtaining a recission of the agreements relating to the acquisition of 1,000,000 shares and, finally the assets of Golden West Minerals, Ltd. In the alternative, the company claims damages against certain of its former officers and directors, Ontario Cobalt Mines, Ltd., Torny Financial Corporation and others in the principal amount of $1,363,045.02.

A statement of defense on behalf of Samuel Ciglen was delivered to the Supreme Court of Ontario on March 26, 1959. On November 17, 1959, two actions were filed in the Supreme Court of Ontario on behalf of Samuel Ciglen. One of these actions, which is now also pending seeks payment of $95,000 in fees for services in 1954, 1955 and 1956, liability for which is disputed by this company. Nevertheless, it is included in the accompanying statement as a current liability. The other action seeks specific performance of a purported agreement between the company and Samuel Ciglen. For details of the other action see Note 9 below, Samuel Ciglen et al.

On September 1, 1959, a writ was issued in the Supreme Court of Ontario by the Company in respect of the $300,000.00 note and collateral mortgage obtained from Samuel Ciglen and Morris Black. Torny Financial Corp. has also been named in said writ.

In the other liabilities included in this section on prior statements, counsel advises that there is no change in their status, nor do they advise payment, at this time, of any of the accounts included in the "Pending Legal Determination" category.

(8) Accounts Payable Pending Legal Determination in Respect of Others:

Liabilities included in this category represent fees billed by attorneys who have represented the company in the past, Torny Financial Corporation and other companies with which Sweet Grass had many and frequent dealings, all of which were incurred by the former management. None of these claims have been pressed against the company, and Canadian counsel advises against the payment of any part thereof. In accordance with accepted accounting principles, however, the aggregate amount of the liabilities falling within this category is being carried in the current liability section of the balance sheet pending final legal determination. Such liabilities which were formerly included in this category and which have since been resolved, were eliminated during the current year. They amounted to $15,350.00 in U.S. Funds, and, in addition, $3,000.00 in Canadian currency.

(9) Contingent Liabilities—Not Reflected in Financial Statements:

Samuel Ciglen et al.:

In addition to the action referred to in Note 7 above, there is another action on the list for trial in the Supreme Court of Ontario, whereby Samuel Ciglen is suing for specific performance of a purported agreement between the Company and Mr. Ciglen to settle all actions, claims and differences between the parties, or in the alternative, damages in the amount of $500,000. See Note 11 for further developments.

ACTION BY ALBAN H. NORTON:

An action against the company was commenced by this former officer for damages for wrongful dismissal and for breach of contract whereby the company was to establish a stock option plan of which he claimed to be the beneficiary. The company has instituted a counter-claim against Norton.

ALEXANDER J. JACOBY:

This is an action to impress a trust of 5/6 of 1% of the company's share of the net proceeds from the sale of natural gas in the Steveville Field. In the opinion of counsel, the plaintiff's claim is not measurable and in view of its "doubtful nature . . . it should not be reflected on the company's balance sheet."

DAVIES, RICHBERG, TYDINGS, LANDA AND DUFF (U.S.) $15,000.00:

There is no change in the status of this claim. There is still no invoice in support of it or any evidence that it is valid. For these reasons the company continues to disclaim any liability in connection therewith.

(10) SHAREHOLDERS' EQUITY—QUASI-REORGANIZATION:

On August 31, 1958, the board of directors approved a reduction in the par value of the capital stock of the company from $1.00 per share to 20¢ a share subject to the approval of the shareholders and to the issuance of supplementary letters patent under the provisions of the Corporation Act of the Province of Ontario.

The shareholders approved the board's action at the annual meeting of shareholders held in New York City on November 22, 1958. Supplementary letters patent were granted on April 2, 1959.

The effect of this change is shown in the following table:

	Capital Stock	Capital Surplus
Balances shown by accompanying Consolidated Balance Sheets	$5,000,000.00	$1,189,069.04
Reduction of Par Value from $1.00 per share to 20¢ per share	(4,000,000.00)	4,000,000.00
Balances by reason of reduction in par value from $1.00 per share to 20¢ per share	$1,000,000.00	$5,189,069.04
Contributed Surplus		250,000.00
Total Capital surplus and contributed surplus after adjustments		$5,439,069.04
Reduced by amount applied to eliminate deficit at December 31, 1958*		4,996,595.16
Adjusted balances at December 31, 1958**	$1,000,000.00	$ 442,473.88

* Reduction by amount of Deficit as follows:

Deficit at December 31, 1957	$4,683,274.71
Loss for the Year Ended December 31, 1958	313,320.45
Total Reduction	$4,996,595.16

** Summary Restatement:

Capital Stock—5,000,000 shares each having a par value of 20¢ per share	$1,000,000.00
Capital Surplus	442,473.88
Total Shareholders' Equity—December 31, 1958	$1,442,473.88

(11) EVENTS SUBSEQUENT TO BALANCE SHEET DATE:

On May 17, 1961, we were informed by company's Oklahoma counsel that negotiations are in progress with Exchange Oil Co. to vacate the partition grant, arrange for a new operating agreement between Exchange Oil Co. and Great Sweet Grass Oils Co. and provide for a non-litigation pledge for one year subsequent to the date of signing.

The action by Samuel Ciglen seeking specific performance of the purported agreement between the company and Samuel Ciglen was tried on May 15, 16, 17. At the time of this writing there has been no decision by the Court.

DAVID KESTENBAUM & CO.
CERTIFIED PUBLIC ACCOUNTANTS

PENNSYLVANIA 6-5972

DAVID KESTENBAUM, C.P.A.
JEROME BEARMAN, C.P.A.
REUBEN R. MANDEL, C.P.A.
BERNARD LIPPERT, C.P.A.
SAMUEL BERGER, C.P.A.

33 West 42nd Street, New York

AUDITOR'S REPORT

To the Boards of Directors
RAINBOW LAKES ESTATES INC. AND ITS THIRTY (30) AFFILIATED CORPORATIONS

We have examined the combined balance sheet of Rainbow Lakes Estates, Inc. and Affiliated Companies, giving effect to a combination of 31 affiliated corporations operating as Rainbow Lakes Estates as of April 30, 1961, and the related combined statement of earnings and retained earnings for the period October 2, 1959 to April 30, 1961. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records, and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the combined financial position of Rainbow Lakes Estates, Inc. and Affiliated Companies as of April 30, 1961, giving effect to a combination of the 31 corporations operating as Rainbow Lakes Estates and the combined results of their operations for the period from October 2, 1959 to April 30, 1961, in conformity with generally accepted accounting principles.

DAVID KESTENBAUM & CO.

David Kestenbaum & Co.
Certified Public Accountants

New York
June 15, 1961

RAINBOW LAKES ESTATES, INC. AND AFFILIATED COMPANIES

COMBINED BALANCE SHEET

GIVING EFFECT TO A COMBINATION OF 31 AFFILIATED CORPORATIONS

As of April 30, 1961

(Note 1)

ASSETS		
Cash on Hand and in Banks		$ 109,537.59
Cash Held in Trust—Subject to Escrow Agreement—(Notes 3 and 9)		170,310.00
Contracts Receivable on Lot Sales (Estimated Amount Due for Collection to April 30, 1962, $1,800,000) Partially Pledged—(Notes 2, 4 and 9)	$8,328,725.07	
Less: Allowance for Contract Cancellations	1,219,571.27	7,109,153.80
Other Receivables		8,106.88
Subscriptions to Capital Stock—(Note 5)		82,500.00
Unexpired Insurance Premiums		858.68
Land for Sale, at Cost (Encumbered)—(Notes 6, 9 and 10)		1,489,182.77
Houses Under Construction, Unbilled—at Cost—(Notes 2 and 7)		36,247.74
Model Homes, Including Land		73,533.55
Furniture, Fixtures and Equipment, at Cost, Less Allowance for Depreciation, $6,131.38		53,339.22
Deposits Receivable		20,727.15
Organization Expenses — Unamortized (Amount Amortized $881.80)		4,408.77
		$9,157,906.15
LIABILITIES		
Accounts Payable—General		$ 47,051.43
Accounts Payable—Related Interests		687,621.24
Notes Payable—Secured (Notes 2, 3, 4, 6, 8 and 10) (Substantially all Payable Within 12 Month Period)		583,909.46
Mortgages Payable—Secured by Land, (Notes 6 and 9) ($60,000 Payable within 12 Month Period)		581,883.26
Notes Payable—Equipment—Secured ($7,200 Payable within 12 Month Period)		19,845.52
Customers' Deposits on Sales Contracts (Note 2)		61,473.03
Accrued Taxes, Interest and Other Expenses—General		44,743.23
Accrued Interest, Fees and Other Expenses—Related Interests		153,545.76
Development Costs Under Contract (Notes 3 and 6)		1,611,978.47
Loans Payable—Related Interests (Notes 8 and 10)		207,651.71
Estimated Federal Taxes on Future Collections of Contract Receivables ($450,000 Estimated to be Current) (Notes 2 and 11)		2,377.117.74
STOCKHOLDERS' EQUITY		
Common Capital Stock (Notes 1, 5 and 8)	$ 169,500.00	
Retained Earnings—Annexed Statement	2,611,585.30	$2,781,085.30
		$9,157,906.15

The accompanying notes are an integral part of the Financial Statements.

RAINBOW LAKES ESTATES, INC. AND AFFILIATED COMPANIES

COMBINED STATEMENT OF EARNINGS AND RETAINED EARNINGS— GIVING EFFECT TO A COMBINATION OF 31 CORPORATIONS

For the period October 2, 1959 (commencement of operations), to April 30, 1961

(Note 1)

Lot Sales	$9,979,447.00	
Home Sales	119,268.46	$10,098,715.46
Cost of Lots Sold (Note 6)	$2,146,486.57	
Cost of Homes Sold	115,614.18	2,262,100.75
GROSS PROFIT		$ 7,836,614.71
Interest Income on Lot Sales Contracts	$ 308,773.00	
Miscellaneous Income	38,727.01	347,500.01
		$ 8,184,114.72
Advertising, Salaries and Other Selling Expenses	$1,547,102.20	
Provision for Cancellation of Lot Sales Contracts, Less $261,354.12 Added Back to Land Held for Sale At Cost (Note 2)	958,217.15	
General and Administrative Expenses	453,477.09	
Other Expenses, Principally Interest, Including a Non-Recurring Loss of $38,355.40	200,053.78	3,158,850.22
INCOME BEFORE PROVISION FOR FEDERAL TAXES ON INCOME		$ 5,025,264.50
Estimated Provision for Federal Taxes on Income (Note 11)		2,413,679.20
NET INCOME AND RETAINED EARNINGS AT APRIL 30, 1961		$ 2,611,585.30

The accompanying notes are an integral part of the Financial Statements.

RAINBOW LAKES ESTATES, INC. AND AFFILIATED COMPANIES

NOTES TO FINANCIAL STATEMENTS COMBINING 31 CORPORATIONS

For the Period Ended April 30, 1961

1. The financial statements combine 31 corporations which are affiliated through common management. Statements combining the 31 affiliated companies are presented since the companies have operated as a unit and are expected to operate as a unit after a proposed merger. For the purpose of this presentation, the combination has been given the effect of a "pooling of interest" with the assets, liabilities and stockholders' equity shown by the books of the respective corporations added together. The affiliated corporations include 15 corporations engaged in the acquisition and development of land, 15 corporations engaged in advertising and selling lots and servicing the related contracts receivable, and one corporation which constructs homes on customers' lots purchased from the affiliated land development companies. Such construction is undertaken only on a sub-contract basis.

The names and respective organization dates of all the corporations included in the combined financial statements are shown in the following table:

Date of Organization	Name of Corporation	Designation			Period in Existence to 4/30/61
		Land	Sales	Home	
9/ 3/59	Rainbow Lake Shore Estates Sales Inc.		X		20 mos.
12/10/59	Highbridge, Inc.		X		16 2/3 mos.
12/10/59	Inwood, Inc.		X		16 2/3 mos.
12/10/59	Jaspark, Inc.		X		16 2/3 mos.
3/28/60	Azaj, Inc.		X		13 mos.
3/28/60	Brieton, Inc.		X		13 mos.
3/28/60	Creston, Inc.		X		13 mos.
3/28/60	Edwood, Inc.		X		13 mos.
3/28/60	Floran, Inc.		X		13 mos.
3/28/60	Knoller, Inc.		X		13 mos.
3/28/60	Lakar, Inc.		X		13 mos.
4/ 5/60	Deephill, Inc.		X		13 mos.
6/11/60	Mountain Glen, Inc.		X		10 2/3 mos.
1/16/61	Nuacre, Inc.		X		3 1/2 mos.
1/16/61	Oldaire, Inc.		X		3 1/2 mos.
8/10/59	Rainbow Lakes Estates, Inc.	X			20 2/3 mos.
8/27/59	Rainbow Lakes Estates Briteridge, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Crestwood, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Dells, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Edgewood, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Flamingo, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Grandview, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Highlands, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Inwood, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Jasmine, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Knollwood, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Land, Inc.	X			20 mos.
8/27/59	Rainbow Lakes Estates Magnolia, Inc.	X			20 mos.
12/ 5/60	Rainbow Lakes Estates Newfields, Inc.	X			5 mos.
1/ 9/61	Rainbow Lakes Estates Oaks, Inc.	X			3 2/3 mos.
4/ 5/60	Rainbow Lakes Estates Homes, Inc.			X	13 mos.

The combined statement of earnings and retained earnings includes the results of operations of 13 companies owning land and 4 companies engaged in the sale of land for varying periods up to 8 months prior to April 30, 1960, since determination of the portion of income and expense applicable to the periods prior to April 30, 1960 would require an unwarranted expenditure of time and expense.

2. ACCOUNTING PROCEDURES:

The full sales price of a lot sold under an installment contract is recorded as a sale only after a signed purchase agreement is received from the customer. All payments received prior to completed executed purchase agreements are treated as deposits and are included among the liabilities of the Company. All actual and estimated costs and expenses related to the sale are charged against income at time of sale with future costs and expenses recorded as estimated liabilities.

Costs and expenses consist of (1) cost of land (2) costs of required improvements (road building and supervision under contract at a specified cost) and minor additional estimated costs.

A charge has been made against income to provide for contract cancellations, at a rate which is believed to be adequate. With respect to those contracts on which less than the equivalent of eight (8) monthly payments had been received, a rate of 20% was applied against the unpaid balances. As to all other contracts, a rate of 10% was applied against the unpaid balances.

Interest on unpaid contract balances is included in income when payment on sales contracts are received.

All contract cancellations are charged to sales in the year in which they are cancelled and cost of sales and other related costs are correspondingly reduced.

Federal taxes on income are computed on the accrual basis of reporting income and the full tax liability is so recorded.

For federal income tax return purposes, the income from the sale of lots is reported and the tax paid, principally on the installment basis, as collections are received from contract customers.

The federal income tax has been computed on the basis of reporting by the thirty-one (31) individual affiliated companies. If the provision had been computed as though the land development and sales activities had been undertaken by a single company rather than by thirty-one (31) companies, the estimated additional federal income tax would be $190,000.

3. Trust funds are deposited in the Commercial Bank and Trust Company of Ocala to comply with the provisions of Chapter 475, Florida statutes, 1959, and orders of the Florida Real Estate Commission. Under these rulings, Rainbow Lakes Estates is required to and does, deposit a sum equal to 10% of all monies collected from the sale of lots in the previous month, on the 10th day of the following month. This present balance and future deposits, as required, will be held in escrow for a period of 7 years or until 75% of the scheduled road program has been certified to the Trustees as completed by the county engineer.

Upon such certification all funds then on deposit in the trust account will be released to the corporations.

Estimated total cost for road building and minor improvements have been computed to be $2,000,000. Against this total, $400,000 has already been paid for and/or incurred.

4. Land Contracts Receivable generally provide for down payments with the balance payable in equal monthly installments running about seven (7) years. All contracts provide that interest shall be paid monthly at the rate of 5¾% per annum. All contracts include the right to prepay without penalty, and where prepayments are made in full within a given period, the company allows a discount of 5% of the original contract price.

Title to lots sold under contracts passes to the purchaser at the end of the regular term of the contract if the contract is then paid in full. In case of prepayment in full, title passes immediately. State and county taxes are paid by the Company until title passes to buyers.

Maintenance of the Club House, is paid out of membership dues. A sum of $5.00 is taken out of the first installment payments received on the contract and is set aside for this purpose. The Company's obligation to provide for continuous maintenance of the Club House extends to January 1, 1970.

All Land Contracts Receivable, arising out of sales made by 13 of the land development companies are automatically assigned as collateral security for a certain note payable as more fully referred to in Note 8.

5. This represents the total amount due from shareholders on capital stock which has already been issued to them by all the affiliated companies.

On June 1, 1961, authority was received from subscribers to stock of the land development corporations to offset the aggregate amount of their unpaid subscriptions against loans previously made by them to said corporations. The aggregate amount of the offset was $65,000.00.

On June 5, 1961, the entire amount owed for subscriptions to capital stock in the corporations comprising the sales group was paid in full. This amounted to $17,500.00.

Since these transactions occurred subsequent to statement date, the effect of these events has not been reflected in the balance sheet of April 30, 1961.

6. Land held for sale by the company is stated at cost, including all actual and estimated development costs and costs of minor improvements.

At April 30, 1961, the unexpended estimated cost to complete all developed areas, from which lots had been sold and are to be sold, was $1,611,978.47.

The inventory of salable lots at April 30, 1961 was based upon a computation relating to actual and potential sales.

Actual sales to April 30, 1961 amounted to $9,979,447. Potential sales of unsold lots computed at current retail prices would amount to $5,729,485.

Actual sales represented 64% of the total actual and potential sales. This rate was then applied to the total cost of the land. The resultant product was considered to be the cost of the land actually sold. After deducting the cost of sales figure from the total land cost, the balance remaining was considered to be the inventory value of the unsold lots.

Substantially, all of the unsold lots and lots which have been sold but not fully paid for are subject to mortgages and liens as indicated in Notes 8 and 9.

7. Rainbow Lakes Estates Homes, Inc., one of the 31 affiliated companies is engaged in the building of homes under contract.

Generally, it undertakes to build homes for customers who have bought and paid for and have title to lots situated in the development.

All of the construction is sub-contracted to others. Costs relating to the contract are capitalized until construction is completed and the customer is billed for the full contract price. Only then is the transaction recorded as a sale.

8. Thirteen of the land corporations borrowed $1,000,000 under an agreement dated September 26, 1960. Under the terms of the agreement, repayments commencing with November 1, 1960, were to be made at the rate of $50,000 a month, or 40% of the amount collected in the preceding month from contract receivables, inclusive of interest at the rate of 15% per annum, if that be greater.

Repayments for the six month period to April 30, 1960, aggregated a sum exceeding the $50,000 minimum requirement, (including interest), by $130,000.

The loan is evidenced by a note which is endorsed by the combined management of the sales and land development corporations. All loans payable to officers by the thirteen land corporations were subordinated to this loan. In addition, the capital stock of all the affiliated corporations has been pledged and the undated resignations of officers and directors have been deposited with the lender.

The loan is secured by a lien on all existing contracts receivable and on all contracts to be created thereafter by the subject thirteen corporations.

It is further secured by a first mortgage on land where there is no existing first mortgage and a second mortgage where a first mortgage is already in existence.

All amounts on deposit with Commercial Bank & Trust Company of Ocala, which are held in escrow to insure the fulfillment of the road construction program, were also assigned to the lenders.

Under the terms of the loan agreement, all collections from Contracts Receivable are being deposited in a trust account held in the Commercial Bank & Trust Company of Ocala. Payments are made monthly to the lender out of these funds. After such payments are made, the balance is released for general use.

All advances become due and payable on September 26, 1962 if not paid prior thereto. The loan may be prepaid in a lump-sum at any time by giving 15 days written notice to do so. If such prepayment occurs prior to September 26, 1961, there will be a penalty charge equal to 2% of the principal amount being prepaid.

It is estimated that the entire unpaid balance will be liquidated in full within the ensuing 12-month period.

9. Mortgages payable, aggregating $581,883.26, are principally purchase money mortgage obligations issued by the companies, or mortgages to which the land was subject at the time of acquisition. Interest rates run from 5% to 6%. All of the mortgages generally mature in equal annual installments, except for one which matures semi-annually. All of the mortgages provide for spot releases where individual lots are paid for in full. In such cases, acceleration of a portion of the payments may be required.

10. Under the terms of a loan agreement, fully explained in Note 8, all liabilities to officers and directors of 13 corporations have been subordinated. So long as any part of said loan remains unpaid, no part of the liability arising out of loans to "related interests" may be paid. The restriction applies only to the indebtedness reflected on the books of the 13 land development corporations, in favor of such "related interests", at the time the loan was executed.

11. The tax liability was computed on the basis of reporting by thirty-one (31) individual companies. If the computation had been made on the basis of a single corporation, reporting on a combined basis, the estimated tax would have been greater by $190,000 for the entire period ending April 30, 1961.

12. This reflects the composite of all the issued and outstanding stock in the affiliated companies. The fifteen (15) land development companies reflect an aggregate invested capital of $150,000, the sales corporations an aggregate of $17,500, and the homes corporation $2,000.00.

After giving effect to the paid-up subscriptions referred to in Note 5, all of the issued stock will have been fully paid for.

13. EVENTS SUBSEQUENT TO BALANCE SHEET DATE.

On May 26, 1961, the thirteen (13) original land development corporations borrowed an additional $300,000 under terms, collateral, interest and other conditions set forth in Note 8.

All model homes which were carried at a value of $73,533.55 at April 30, 1961 were sold by June 10, 1961.

GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)

BALANCE SHEET

As at December 31, 1960

ASSETS

CURRENT ASSETS:		
Cash in Bank	$ 4,130.86	
Cash Collateral (Note 1)	5,000.00	
Total Cash		$ 9,130.86
Accounts Receivable:		
Trade—Net of Reserves	$ 26,719.55	
Associates in Joint Lease Operations	12,236.11	
Total Accounts Receivable		38,955.66
Inventory of Supplies—at Estimated Value		4,880.45
Unexpired Insurance Premiums		385.91
Total Current Assets		$ 53,352.88
NOTES RECEIVABLE (Note 1)*		—0—
FIXED ASSETS:—At Cost or Less than Cost to Give Effect to Quasi-Reorganization Values at December 31, 1957, Less Accumulated Depreciation, Depletion and Amortization (Notes 2 and 3)		855,447.83
DEFERRED CHARGES:		
Deferred Loan Discount and Costs (Amortized Over Life of Loan)		3,353.44
Total Assets		$912,154.15

* Principal and Interest—Kroy Note—$228,193.15, Fully Reserved.

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:			
Notes Payable—Long Term Debts Due Within One Year—Secured			$ 93,072.00
Accounts Payable			34,758.59
Interest Payable			466.60
Franchise Taxes Payable			750.00
Total Current Liabilities			$129,047.19
Long Term Debt (Note 3)			4,368.00
ADVANCES FROM PARENT			257,084.03
Total Liabilities			$390,499.22
SHAREHOLDERS' EQUITY: (Note 10)			
Common Stock—Authorized and Issued 7,500 Shares, Par Value $1.00 Per Share	$ 7,500.00		
Less: Treasury Stock 3,750 Shares Donated to the Company—Stated at Cost	—0—	$ 7,500.00	
Capital Surplus—Reduced from $1,023,900.68 by Quasi-Reorganization		744,734.24	
Accumulated Deficit—January 1, 1960 ($279,166.44 Eliminated by Quasi-Reorganization Effective January 1, 1959)	$(125,686.37)		
Net Loss for the Year 1960	(104,892.94)	(230,579.31)	
Total Shareholders' Equity			521,654.93
Total Liabilities and Shareholders' Equity			$912,154.15

The accompanying Notes form an integral part of this Statement.

GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)

STATEMENT OF INCOME, PROFIT AND LOSS

For the Year Ended December 31, 1960

REVENUE FROM PRODUCTION		$228,930.14
EXPENSES:		
Production Expenses	$ 83,217.56	
Abandoned Properties (Notes 5 and 11)	6,753.60	
Engineering Fees	3,070.00	
Administrative Expenses	121,601.77	
Depletion and Depreciation (Note 5)	109,337.13	323,980.06
NET OPERATING LOSS		$ 95,049.92
OTHER INCOME:		
Overhead Income	$ 3,250.00	
OTHER EXPENSES:		
Interest	$ 7,984.49	
Amortization of Production Loan Costs	3,652.80	
Amortization of Organization Expenses	668.53	
Total Other Expenses	$ 12,305.82	9,055.82
NET LOSS FOR THE YEAR		$104,105.74
Prior Period Losses		787.20
Net Loss to Deficit		$104,892.94

The accompanying Notes form an integral part of this Statement.

GREAT SWEET GRASS OILS COMPANY (OKLAHOMA)

NOTES TO FINANCIAL STATEMENT

For the Year Ended December 31, 1960

(1) Notes Receivable:

Kroy American Oils, Inc. had assumed the obligation provided in a certain note and act of mortgage, when its parent, Kroy Oils Ltd. acquired properties from Coronet Development Corporation, in 1956. The details of the instrument have been presented in earlier audited reports.

On April 7, 1958, the company instituted action against Kroy American Oils, Inc. in the First District Court, Parish of Caddo, State of Louisiana. The action, so filed, was in the nature of one seeking a declaratory judgment to determine that the mortgage made by Coronet Development Corporation to Samuel Ciglen and Morris Black, allegedly securing a note in the principal sum of $300,000.00, is a valid lien on oil and gas leasehold estates transferred to Kroy American Oils, Inc. The aforesaid mortgage and note were assigned, subsequently, to Great Sweet Grass Oils Limited.

The petition alleged that there was a balance due on the mortgage and the note in the amount of $222,226.73. A judgment in favor of Kroy American Oils, Inc. was appealed to the Supreme Court of the State of Louisiana. On February 29, 1959, National Surety Corp. issued its collateral receipt as evidence of the company's cash collateral in the amount of $5,000.00 covering an appeal bond in connection with the company's appeal. The court ruled in favor of Great Sweet Grass in this subsequent action, but its opponent has served notice of its intention to appeal.

In view of the pending litigation, additional interest which has accrued beyond the amount included in the alleged action, has not been reflected in the financial statements.

In further consideration of such pending action and not because it is the view of the management that the unpaid balance (less a 20% contingent lawyers' fee) is not collectible, but to conform with accepted accounting principles in the circumstances, a full reserve has been raised against the total balance sheet amount of $222,263.73.

It is the opinion of the company's American counsel that regardless of the outcome of this case, Kroy American Oils, Inc. would not be permitted, legally, to recover any portion of amounts heretofore paid thereon.

(2) Fixed Assets:

Summary of Accounting Practices

Acquisition costs of petroleum and natural gas interests are capitalized. In certain cases acquisition costs were revised in 1957 to give effect to revaluations authorized by the Board of Directors. Exploration expenditures are deferred until the results can be assessed, at which time they are capitalized as costs of the properties retained or are written off to income, as appropriate. Costs of abandoned properties are written off at the time of surrender. Costs of wells which are capable of producing in commercial quantities are capitalized. Dry hole costs are written off in the period in which they are determined to be non-productive. Lease and reservation rentals and other carrying charges on undeveloped properties are charged to income at the time of payment.

Depletion of producing property costs and amortization of producing well costs are provided for by the unit of production method, based upon estimates of commercially recoverable oil and gas reserves prepared by independent consulting geologists. Depreciation of production equipment, buildings, etc. is provided on the straight-line method at rates estimated to be sufficient to recover the cost of the assets over their useful life.

Maintenance and repairs are charged to expense when incurred and betterments which extended the useful life of the assets are capitalized.

On retirement or sale of items of property the difference between the net book value of the items and the proceeds, if any, is charged or credited to the income account.

Where property is acquired without direct cost, a nominal value of $1.00 is assigned to each property so acquired, for purpose of record and control only.

Consistent with such accounting practices, charges were made in the various property accounts during the current year.

On March 6, 1959 an action was filed in the District Court of Garvin County, Oklahoma, against the Company and other parties by Exchange Oil Company, to partition ownership of certain oil and gas leases known as the North Hoover Field in Garvin County. Of the 17 wells located in this field 16 are owned jointly by Great Sweet Grass Oils Company and Exchange Oil Company, each having an undivided one-half interest therein. The remaining one well is owned jointly by Great Sweet Grass Oils Company, Exchange Oil Company and Edwin Cox. Their interests in said well are 25% each for Great Sweet Grass Oils Company and Exchange Oil Company with the remaining 50% owned by Edwin Cox.

The partition suit against the Company, which was filed on March 6, 1959 by Exchange Oil Co., was granted by the Court on December 7, 1959. While this action, according to company's counsel, does not dispute company's title to its interest in the leases recited in the partition suit, the effect thereof, would be a sale of such leases at public auction or a partitioning in kind of such leases. As a result of this partitioning grant by the court, an attempt was made to secure an agreement between the parties for a partition in kind. This attempt failed. On February 19, 1960 an independent appraiser filed with the court a report valuing the properties at $667,187.50. On February 29, 1960 both litigants indicated their intentions of acting on the appraisal, by offering to purchase the leases at the appraised value. The resultant standstill, since none of the parties in this action requested a public auction sale of the properties, is still in existence at this writing.

See Note 5 for further developments concerning this issue.

NOTES TO FINANCIAL STATEMENTS (Continued)

(3) EMPIRE TRUST CO. OF NEW YORK:

(1) On December 29, 1959 the company received from the Empire Trust Company of New York the proceeds from a $175,000 refinancing production mortgage loan on its holdings in Oklahoma. As additional security, there is a guarantee of this loan on the part of the Canadian parent company. The terms of the loan provide for monthly repayments of principal at the rate of $7,756.00 together with interest at 5¾% per annum.

The loan agreement provides for accelerations of payment in the event of sales of assets covered by the mortgage agreement, to the extent that should the company sell its interest in the Richardson leases in the North Hoover field in Oklahoma, $122,500 of the proceeds would be applied against the loan on account of principal and interest. In like manner should the company sell the "McClain" Leases in the East Brady field in Oklahoma, $35,000 of the proceeds from such sale would be applied against the loan on account of principal and interest. As at December 31, 1960 the balance of the loan was in the amount of $97,440.00.

(4) EVENTS SUBSEQUENT TO BALANCE SHEET DATE:

On May 17, 1961, we were informed by company's counsel that negotiations are in progress with Exchange Oil Co. to vacate the partition grant, arrange for a new operating agreement between Exchange Oil Co. and Great Sweet Grass Oils Co. and provide for a non-litigation pledge for one year subsequent to the date of signing.

AUDITOR'S REPORT

To the Shareholders and Board of Directors
GREAT SWEET GRASS OILS COMPANY (OKLAHOMA):

We have examined the accompaning balance sheet of Great Sweet Grass Oils Company (Oklahoma), as at December 31, 1960, and the statement of profit and loss, for the year ended December 31, 1960. Our examination was made in accordance with generaly accepted auditing standards, and accordingly included such tests of the accounting records, and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet as at December 31, 1960, and the accompanying statement of profit and loss, for the year then ended, together with the notes thereto, present fairly the financial position of Great Sweet Grass Oils Company (Oklahoma) at December 31, 1960, and the results of operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistant with that of the preceding year.

DAVID KESTENBAUM & CO.

David Kestenbaum & Co.
Certified Public Accountants

New York
June 13, 1961